

GLOBALIZATION AND ITS CHALLENGES TO MARKETING IN MICRO ENTERPRISES

(Globalization on a Shoestring)

by

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ABSTRACT

This paper will focus on how changes and developments in communication and information technology may influence the coordination of firms' worldwide operations. With the advent of the internet, a small business can literally go global overnight. Analoui and Karami (2002), define Micro Enterprises are organizations that consist of 1-9 employees. (p. 6) These small businesses make up the backbone of the free market system in the United States. Mom and Pop businesses are everywhere. Does globalization have an effect these small business enterprises? Has it changed the way micro enterprises conduct business and can these small companies afford to go global? According to Kotler (2003) "A global strategy treats the world as a single market." (p. 401). Does this apply to micro enterprises? This paper reviews the micro enterprise and the literature available on the effects of globalization on such businesses to determine if small businesses are changing business strategies in order to survive.

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INTRODUCTION

“Globalization is revolutionizing the way we work, the way we live, and perhaps most important, the way we relate to each other across national boundaries. It is tearing down doors and building up networks between nations and individuals, between economies and cultures.” (Clinton, 2000) However, what about small businesses with 10 or less employees, typically known as Mom and Pop businesses? Can these micro enterprises compete in a global market? Are the resources available to accommodate these small entities, and how do they access the market? These questions are the focus of this paper which will review the literature available on globalization and its affects on micro enterprises.

According to the Micro enterprise Journal, the United States will see a continued move toward self-employment. This includes “a surge in new technologies that lower the barriers to business ownership; widespread worker distrust and dissatisfaction that was exacerbated by corporate accounting scandals such as Enron and WorldCom; and a growing sense that "job security" is now twentieth century history.” The journal points out that “a little more than half of the U.S. workforce and 90% of all U.S. businesses are micro businesses and within the next 25 years, at least 80% of all American workers will either run their own micro business or they'll be employed by a micro business.” (Baker, 2004) As a result of statistics of this nature, the question becomes, how do micro businesses compete in an ever increasing global economy?

REVIEW OF LITERATURE

What exactly is globalization? “Globalization is the growing interdependence of national economies--involving consumers, producers, suppliers, and governments in different countries. (Dunning, 1993). Globalization allows companies to sell their products and services to consumers beyond the borders of their country of origin. Globalization is literally removing the

boundaries to potential customers in a world wide market. Knight (2000) states “Globalization reflects the trend of firms selling and distributing products and brands in many countries around the world.” (p. 2)

Literature is abundant on the subject of small and medium enterprises (SME’s). According to the Small Business Association (SBA), although there is no official definition of and SME they can be defined based on number of employees, value of assets, and levels of turnover. The SBA website states “Currently, global strategies are mostly discussed only for large firms. In most cases such strategies cannot be adopted by SMEs because of different preconditions. Entrepreneurs may be forced to the conclusion that a SME is not only a smaller type of large firm.” (www.sba.org) While this information makes the concept of an SME just a little bit confusing, for the purposes of this paper, SME’s and micro enterprises are considered small businesses, that do not have a public offering, and are owned by individuals employing ten or less employees. “As the rate of economic globalization becomes faster and faster, small businesses in the United States can no longer afford to ignore the challenge of international commerce. Small businesses are a key factor in the economies of all nations. Small businesses must develop a global culture, challenge the attitude of key decision makers, gain crucial international experience, and overcome the size barrier.” (Rowden, p. 257)

Driving Factors for going global

“Whether it is the notion of self-determination through self-employment; community-building through business creation; the preservation of local businesses in the face of globalization; or personal empowerment through skills acquisition, the promise of micro enterprise development is compelling.” (Doyle et al. p. 12) This is a strong statement that reflects the possibilities for the future of micro enterprises.

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Today, the concept of globalization is a reachable goal for all business entities with the advent of Internet marketing. Small businesses have the potential to reach consumers that are located oceans away. Granted micro enterprises must possess a desire to export and outsource their products and services and the desire to go global must be a driving factor or change agent for the organization. According to Denton and Richardson (1992) there are literally hundreds of thousands of small businesses that have the potential to make a profit by going global. This alone is a strong motivator. However, in order to reach success through globalization, micro enterprises must overcome obstacles that often keep small companies from growing such as financial support. Zulima and Nieto (2005) state “In sum, the lack of relevant resources is one of the causes limiting the growth of small and medium-sized family businesses, together with psychosociological, cultural, and political problems. The basis of internationalization is to have different types of resources that allow the firm to expand outside national borders. A family firm is poorly positioned to obtain these resources, particularly in the case of small companies, and this may help to explain its lack of international outlook. Therefore, reversing this trend means seeking the necessary resources.” (p. 2)

Murray (1993) described nine characteristics of globally successful small businesses 1) Exceptional demand for a product, and a demonstrated international market; 2) Decline in domestic sales of product after more technically advanced competitors have been introduced (less developed countries may not need or may be unable to afford state-of-the-art products).; 3). A unique product that is difficult to duplicate abroad; 4) Secure capitalization, operations, and management to sustain an international venture; 5). Strong relationships with creditors; 6) The ability to expand staff and facilities if necessary; 7) An understanding of global markets and the willingness to devote the necessary time and resources to a new venture; 8) Commitment from

senior management to provide resources and direction; and 9) Personnel experienced and trained in international business.” (p. 52) However, the literature also reveals that globalization can also be as simple as building a good website. As long as the site has the qualities that work to attract customers in other cultures and is continuously worked by the micro enterprise.

The first motivating factor in going global is the fact that the cost of moving merchandise and services is substantially less than it has been in the past. Graham (1999) points out “Technological improvement has been felt primarily in the areas of transport and communications; in reduction in costs of moving goods, funds and information around the world; and in innovations in computing and financial services. These technologies have lowered the transaction costs associated with conducting commerce across international boundaries and have had a major impact on the structure of the global economy.” (p. 4) With decreases in the costs of going global more micro enterprises have the opportunity to expand and grow into the global market.

The information super highway is enabling companies to sell their products and services to consumer bases that they never knew existed before. Hamil (1997) explains that “The most important development, in this respect, has been the explosion of international marketing activity on the Internet and the associated emergence of the global information superhighway. There are an estimated 40 million individuals and organizations currently linked to the Net, with connectivity growing at an average of 10 percent per month.” (p. 2) Therefore the Internet is a major driving factor for taking a micro enterprise global.

Whatever the driving factor may be, it is apparent that if a micro enterprise decides to go global then they must take on a marketing oriented view of expansion. Once the driving factors are in place then the methods must be determined, then it’s up to the micro enterprise to figure

out how to go global. Looking at the two driving factors previously discussed we will now concentrate on the financial and Internet accessibility for the micro enterprise which must be willing to take the risks necessary to implement the changes required to become global.

Taking the step into globalization

Hamill (1997) explains that in order to understand how the Internet works we must understand the underlying connectivity that is involved in the process. “Simply speaking, the Internet is a network of interlinked computers throughout the world operating on a standard protocol which allows data to be transferred between otherwise incompatible machines.” Okay, now that we understand how the Internet works, how do we use the concept to compete in a global world? Hamill explains this as well, “Four main competitive advantages are available from Internet connectivity including: cost/efficiency savings achieved through substituting the Internet for other communications channels with vendors; information providers and business partners; performance improvements from the widespread internal use of the Internet to integrate information resources, support virtual teams and facilitate distributed decision making and organizational flexibility; and market penetration which can be achieved from high external connectivity with customers, including public Web sites and online customer support; product transformation including the development of Internet-based products and services that redefine the company's strategic position.” (p. 4) Sounds simple enough. The problem with making the Internet work is to obtain as many inquiries (hits) to a web site as possible. The more hits to the website the more potential for sales. So how does a micro enterprise go about obtaining these hits?

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The first step is to create a website. The site must be easy to navigate and visually pleasing to the consumer. Several factors must be considered when building the site. Should an outside company be hired to create the site or can it be created internally? Creating a website internally can save a company thousands of dollars by avoiding the high cost of external developers which charge by the hour where simply sending a selected employee to a class can be worth its weight in gold for a micro enterprise. Which products or services should be sold through site and should an online shopping cart be utilized to create online sales? Then there is the subject of Meta tags and keywords. These are words and phrases that are embedded in the website that assist a search engine in finding the site when a consumer types in key words or phrases on the search engine page. Think in terms of a magnet attracting small slivers of metal. The keyword is the magnet and the slivers of metal are the search engines. In this new century, “location, location, location” has been replaced with “keyword, keyword, keyword.” Which words are the right words, and how will they work to increase the number of hits to the site and finally, the developer must determine how many words are too many words. There are also banner exchanges and links that can also increase the number of hits to the website. Banner exchanges are a method of free advertising on other websites that give a company more exposure or visibility. Banner ads can also be purchased on other websites or directly from search engines like Google, Yahoo, or AOL. The concept is very similar to placing an ad on a radio or television network. And finally, should a search engine robot be utilized to keep the website listed on the various search engines and if so, which robot service will work best for the company? A search engine robot is a computer program that submits a website to the key search engine on a daily basis so that the site does not drop or disappear out of the search engine database. A robot program can be purchased by the micro enterprise or the service purchased from any number of providers. “A good Web

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site can be used for advertising, corporate visibility, brand name recognition, public relations, press releases, corporate sponsorship, direct sales, customer support and technical assistance.

The key to achieving these benefits is a well designed site and effective marketing of the site to ensure a large number of "hits". (Hamill, p. 7)

The second step in Internet marketing is to gain an understanding to the markets that a company wants to penetrate. Knight (2000) suggests “When firms internationalize, they may gather information on foreign markets, transform products and labeling to suit local needs, and make other changes appropriate for pursuing opportunities abroad.” (p. 6) Obviously a decent understanding of potential consumers will save a company time, effort, and money that could possibly be wasted trying to market their products and services to a consumer group that may not have an interest or internet access. Also, an understanding of the cultural differences will assist a micro enterprise in targeting the correct consumers. This also coincides with a relationship driven marketing model or what is known as a “serendipity model” which according to Merrilees (1999) is “where unusual and near-chance circumstances result in a particular agent being selected. This special case may be linked to networking contacts and is driven by a combination of chance and a strong feeling by the exporter that the particular agent has the right chemistry to make the relationship work.” (p. 5)

Another area of Internet marketing that should not be overlooked is that of companies like E-Bay that offer an outlet for micro enterprises to sell their products and services without the apprehension of building their own websites. According to Maney (2004) “The Web site has become a mirror of our times. More than 125 million people use it; \$1,060 worth of products flow through it every second.” (USA Today) The E-Bay website boasts, “More than 560 farm

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tractors and parts sell on eBay every day; More than 900 MP3 players are sold on eBay every day; A diamond ring is sold every 2 minutes on eBay; A book sells every 2.5 seconds on eBay ; and A Ford Mustang sells every 34 minutes on eBay Motors.” (Source EBay) The availability of an established marketing tool has encouraged many micro enterprises to build websites within the EBay site. This tool places the company right in the middle of an Internet hub that millions of people access each day. Companies like EBay charge fees for the service, however when compared to the cost of building and maintaining a website as well as the marketing costs, this may be an affordable option for the micro enterprise.

The next question to be answered is how much will all of this cost? This is answered by reviewing the variables for individual organizations. Most micro-enterprises do their marketing on a shoestring budget. However, for a very small business it is possible to start an E-Business with limited funds. Many small businesses utilize drop shipments as a means to eliminate the cost of inventory and overhead. An order is placed over the internet through a web site shopping cart. The order is received through the business E-mail which includes appropriate shipping, billing and payment information. Once the payment has been verified and processed, the business owner then places a subsequent order from his or her supplier, and arranges to either have the purchased items shipped directly to the consumer or to the business. This saves a small business owner expenses in overhead such as storage and the business owner in theory then becomes the middle man in the transaction.

CONCLUSION

Raymond (2003) explains that although technical forces are a driving factor in the globalization of SMEs, there must be a change in the management goals. The strategic issues stemming from the contemporary problems of the SME determine above all its actual and

potential management methodologies. The competencies, practices, development factors, and actions necessary to become competitive all focus on the SME's management system.” (p. 269)

In other words, managers must see the need to globalize and then use the technology.

The cost of globalization can be minimal depending on how a micro enterprise approaches the concept. Using internet marketing and forming alliances is an affordable way of reaching a level of globalization. Kotler (2003) tells us that “clearly all companies need to move into e-marketing and e-purchasing and the key challenge is designing a site that is attractive on first viewing and interesting enough to encourage repeat visits.” (p. 48) Hubs like Ebay offer an affordable global accessibility. All too often micro enterprises are overlooked in the importance of contribution to the economy. Therefore, to maintain a competitive advantage, the micro enterprise can thrive using the tools provided in this paper.

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