MARKETING EFFECTIVENESS OF SMALL FIRMS INVESTMENTS

Assistant. Prof. PhD. Svilen Ivanov

Introduction

Over the last years, marketing effectiveness has drawn much interest among scientists and business operators whereas identifying processes associated with marketing effectiveness and marketing effectiveness management has become a major priority in the field of marketing science and practice. Scientific literature describes a number of detailed and much applied approaches and metrics for the management and evaluation of enterprise effectiveness, such as the Balanced Scorecard (BSC), Comparative Effectiveness Research, Data Envelopment Analysis (DEA), Return on investments in financial analysis (ROI), Marketing return on investment (mROI), Return on marketing investment (ROMI), Economic Value Added (EVA) and other metrics as Customer Lifetime Value and Customer’s Potential Value (CLTV/CLPV), Brand Equity (BE), Customer Equity (CE), etc. Normally, after being adapted to the specific needs and goals of the organization, these metrics become implemented in the corporate practice even though the question of whether and to what extent these can be applicable to enterprises of limited resources is still debatable. This issue has been placed in the focus of recent developments and empirical studies, which identify specific for the smaller firms marketing practices, based on the specific management style and expertise of entrepreneurs, operating their own business.

Theoretically, if similar metrics are to be developed as universal and recognized as a subset of the strategic management and operational tools, there should be no deterrents for their application regardless of the size of enterprise and its resource base. From a practical point of view, however, the extent to which such metrics are applied to the operations of small firms can only be evaluated on the basis of empirical studies conducted on a certain group of companies.

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The purpose of the present article is to outline some of the problems arising from the evaluation of the marketing effectiveness of investments in enterprises of limited financial resource. To this aim, the following limitations should be taken into consideration:

(1) Subject of study are primarily business entities that operate on the Bulgarian market of bio products and are classified as micro and small enterprises. The choice of respondents embraced by surveys of a particular market is being determined by the research assumption that players from different industry sectors tend to exhibit similar patterns in their market behavior, which arise from the specific industry competition, market synergy and experience.

(2) Although marketing effectiveness can be examined at different levels, for the purposes of our study, we shall discuss it from the point of view of marketing investments of companies that produce, distribute, purchase and sell bio products on the territory of Bulgaria. Under marketing investments we shall understand any available resources – financial or any other resources which can be mobilized in the pursuit of the business marketing objectives and relevant marketing activities and programs which aim to create market-based assets - good reputation, loyal clients, brands, ideas and distribution channels.

Defining marketing effectiveness of investments

In scientific literature, “marketing effectiveness” is usually defined as “the extent to which marketing actions can help the company achieve its business objectives”. In various marketing studies, it is often discussed alongside the concept of “marketing efficiency”, seen as one of the aspects of marketing effectiveness, which focuses on the relationship between use of available resources (allotted funds) and achieved marketing objectives. The latter concept will not receive further attention in the present article. Even though scientists and marketing specialists have been much preoccupied lately with the subject of marketing effectiveness and efficiency, the topic is not new, and during the last century it had provoked a NUMBER OF? spate of discussions and reviews as a result of which, many periodicals and specialized journals dedicated entire issues to the subject.

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6 The classification described in the SMEs Act is taken in consideration. (Art. 3 (1).) – all business legal entities employing around 250 staff on average and having 97 000 000 BGN annual turnover.
7 Marketing effectiveness of investments is seen as one of the aspects of the effectiveness of marketing investments (i.e. the economic effectiveness of marketing investments or the social effectiveness of marketing investments– each focusing on various aspects of the effectiveness of investments).
The specific interest in “marketing effectiveness” arises from its direct relation to the organization’s performance targets such as long-term growth and stability, market orientation, customer satisfaction and the organization’s competitive advantage. On the other hand, the wide scope of this construct makes it possible to discuss it from various points of view i.e. overall company structure, company management and operations, the firm’s overall sales performance, spending, advertising costs involved in a promotional campaign, etc.

When defining marketing effectiveness of investment (MEI) we need to say that scientists and practitioners differ in their opinion about which of the marketing activities of the organizations should be defined as business spends and which as business investments. M. Porter, for example argues that “ideally, marketing costs are investments aiming to acquire a certain market share, create high production volume or build a strong brand”. A similar view is supported by Philip Kotler. He points out that “marketing should be seen as an investment hub whose costs create long-term customer relationships and revenue”. According to Kotler, only the current expenses for marketing should be seen as marketing costs.

The above view which supports differentiation between marketing costs and marketing investment has also found expression in Bulgarian scientific literature. For example, G. Mladenova argues that “when a new product is launched, the expenditure involved in developing and marketing the product, and in promoting and encouraging sales of said product can result in budget overruns, i.e. expenses incurred in excess of budgeted amounts” and because of that, these expenses can be defined as investments as they create conditions for generation of income or revenue in the future. We can assume therefore, that unlike other expenditure, means that ensure market-based assets – such as trademarks, new products, reputation, distribution channels and customers can be defined as marketing investments.

In view of the aforementioned definitions we assume the approach that marketing effectiveness of investment (MEI) is the degree to which marketing investments actually lead to goal attainment or to organization’s expected performance which can be presented by the following relation:

\[
MEI = \frac{\text{outcome}}{\text{expected or planned performance}},
\]

\(1\)

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14 Porter, M. (2005) Konkurentnoe preimushtestvo. Moskva: Altina biznes buks, p. 702. In his study, the author points out that by marketing investments we can also understand expenses incurred towards price reduction and active product promotion.
In the ideal case, MEI value is expected to equal 1. This in turn suggests that the opportunities for marketing investments which aim at a particular goal attainment or outcome are neither overrated nor underrated as the investment itself is seen as optimized.

**Research methodology used in the study**

Earlier we discussed how it is possible to measure and define marketing effectiveness. Scientists distinguish between two main groups of factors: financial and non-financial\(^\text{17}\). As it is the aim of the present study to establish to what extent if at all, small firms make use of metrics normally applied to big corporations, we shall conduct our research by examining how the decision-makers look at different approaches to assess and manage marketing investment effectiveness in terms of their own business activities. Use of such metrics necessitates investigation of the subjective opinions of respondents and in this relation, the following three more significant research **tasks** can be outlined:

1. Identifying the most common marketing metrics used to measure MEI, according to the degree of significance as perceived by the respondents;
2. Comparison between the perceived significance of marketing investment activity and satisfaction with achieved investment effect;
3. Defining factors which have a bearing on the overall perception of MEI.

Towards execution of the above-mentioned tasks, we have chosen the Bulgarian bio-products market as the object of study whereby micro and small enterprise operators are seen as the main participants in the study. Two basic constructs with respect to the evaluation of MEI have been used in preparation of the survey questionnaire: “perceived significance of the sector/area where marketing investments would be made” and “degree of operators’ satisfaction with said marketing investments”\(^\text{17}\), with responses scored along a 5 – point scale.

At this stage it is worth noting that the research approach is based upon the assumption that both constructs are linked together or are seen as interrelated. Moreover, the more significance is given to a marketing investment activity, the greater the financial resource that will be set aside for it. This makes necessary the inclusion of a third construct “expected outcome or goal to be attained by the firm”, which in turn will have an effect upon the degree of satisfaction and decision for a potential area of investment. Furthermore, according to the herein accepted definition on MEI, its measurement will be directly related to the expected or planned outcome of the marketing activity on the one hand and achieved investment effect, on the other. To examine these relations in terms of force and direction, we have formulated and employed a sample of questions, which aim to survey respondents’ expectations regarding the development of the bio-products market in Bulgaria, company’s growth prospects and forecasts for development, in view of 12 key factors – market share, new products, new POS channels, newly acquired customers, etc.

By the date of primary data collection (September, 2012) the number of registered bio-products operators/vendors in Bulgaria was estimated at 1087\(^\text{18}\). As accessible data revealed only the name and address of the registered legal entity or individual, the survey is to embrace all respondents who can submit contact information\(^\text{19}\), which in turn will determine the population to be sampled – those who participated in the survey\(^\text{20}\). As it was difficult to reach respondents in the survey sample, we decided to conduct an on-line survey of the population as a possible method to gather primary data.

After analysis of the information gathered, the survey questionnaire was sent to 425 respondents, out of which a total of 128 questionnaires were filled in and sent back. As filtering questions were also embedded in the survey, respondents who answered different block sections of the survey also varied in number. Survey data were processed with the help of the statistical software package (SPSS), whereas weighted averages, correlation and factor analyses were subsequently used in the data analysis.

Results from the survey and discussions

Before examining the distribution of responses across operationalized variables, by which a degree of significance is assigned to MEI by operators, it is a good idea to check whether the received scores can be subjected to a factor analysis in order to detect hidden factors that constitute groups of inter-correlated variables\(^\text{21}\).

Here, the formal requirements for such a survey are at hand – the variables are measured on the Likert scale\(^\text{22}\) where the number of variables is not greater than \(j\) of the units of sampling (even though it can be positioned at the interval \(9\) to \(53\)). Lastly, all included variables can be regarded as empirical indicators of the construct “marketing effectiveness of investments” which is surveyed. The nine operationalized variables (Table 1) however are not inter-correlated, which is evidenced by the results of Bartlett’s test of sphericity. At the same time, the index value of Keiser-Meyer-Olkin

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\(^{19}\) We have assumed the construct that the presence of a company website is a result of marketing investment, (sector communications), which in turn implies that the respondent can provide evaluation on MEI. In this way, we can be certain that all units from the sample have been surveyed.

\(^{20}\) Non-purposive, non-random sampling, also known as the volunteer sample – as it usually involves individuals who agree to participate in research. The risks with this type of sampling are that the sample might not represent the population as a whole and that it might be biased by volunteers and thus the data received to be distorted. For further details, see Zhelev, S. Marketing studies. University Publishing House “Stopanstvo”. Sofia 2008, p. 276

\(^{21}\) The nine variables can be seen as describing the scores of the operators, as they are related to the evaluation of MEI, as the conditions for reliability (the value of Cronbach’s Alpha coefficient is 0.901) and validity (the mean value of the correlation coefficients is 0.631) have been kept, while the adjusted value of the coefficient of determination is 0.979, with a level of significance of the dispersion analysis measured at 0.003).

\(^{22}\) Usually, the factor analysis is used for variables measured on an interval or proportional scale, since Likert scale is seen by researchers as a scale on the border between ordinal and interval measurement, then we should be confident that factor analysis is appropriate for these data.
Articles

measure of sampling adequacy falls below 0.5, which is a sign that the correlation coefficients between the pairs of variables cannot be explained with other variables and the factor analysis in this case will not be seen as an adequate research method and no hidden factors can be found to influence the scores of the respondents for MEI. This is to say, that the only possible solution in this case is the interpretation of the distribution of scores given by the operators of bio products and their significance. Since not all of the respondents have given responses on all variables, we can compare the relative degrees of significance expressed by weighted average coefficients, as below:

\[
sp = \frac{\sum xf}{\sum f}.
\]  

(2)

Where, \(x\) is the rating, given by the respondents for each item, with score points from 1 to 5, and \(f\) is the frequency in giving a rating score. Analysis of these results shows, that respondents have perceived ‘good reputation’ (72.7%) and ‘the number of new products on the market, launched within the accounting period’ (51.7%), as extremely significant factors in measuring and evaluating of MEI. (Table 1.).

Customer Lifetime Value, Brand Equity and Economic Value Added also fall within the upper limit of operators’ scores. In the middle part of the table (according to the Likert scale, this corresponds to “significant”), are entered traditional marketing indices for the firm’s marketing position – market share, relative market share and sales volume. The lowest scores are received for mROI, which is the only index evaluated as “extremely significant”, and “significant” for less than half of the respondents (47.4%)24.

Table 1

Operationalized variables for evaluation of marketing effectiveness of investments (MEI)

<table>
<thead>
<tr>
<th>№</th>
<th>Factor/ Index</th>
<th>(\Sigma f)</th>
<th>(\Sigma xf)</th>
<th>Weighted Averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reputation</td>
<td>30</td>
<td>153</td>
<td>5.1</td>
</tr>
<tr>
<td>2</td>
<td>Quantities of new products on the market</td>
<td>25</td>
<td>125</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>CLTV</td>
<td>22</td>
<td>97</td>
<td>4.41</td>
</tr>
<tr>
<td>4</td>
<td>Image</td>
<td>30</td>
<td>131</td>
<td>4.37</td>
</tr>
<tr>
<td>5</td>
<td>EVA</td>
<td>27</td>
<td>116</td>
<td>4.11</td>
</tr>
</tbody>
</table>


24 A possible reason for this is the relatively low popularity of this index among non-specialists. As shown in Table 1, this index is evaluated by the least number of respondents in the sample, while \(x\) values (along 1 to 5 range) show that this item scores as comparatively insignificant with the respondents.
For the execution of the second research task, we employed questions which match respondents’ perceived significance of the sectors or areas for marketing investment activities and operationalized variables which determine the degree of satisfaction of investments made. When examining the relations between the two constructs, we need to make sure whether the variables (items) for which respondents give their scores correlate, and thus assess the relation between operator’s satisfaction score with marketing investment activities in the specific sector and the vendor’s score for the investments effect upon the firm’s performance. (Таблица 2).

### Table 2

Comparison of the significance levels and the value/force of correlation coefficients

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Distribution</th>
<th>Trademarks</th>
<th>New products</th>
<th>Ideas</th>
<th>Customers</th>
<th>Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Influence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>0.032*</td>
<td>0.346**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trademarks</td>
<td>0.039*</td>
<td>0.383**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New products</td>
<td></td>
<td></td>
<td>0.323*</td>
<td>0.110*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ideas</td>
<td></td>
<td></td>
<td></td>
<td>0.146*</td>
<td>0.225**</td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td></td>
<td></td>
<td></td>
<td>0.005*</td>
<td>0.385**</td>
<td>0.026*</td>
</tr>
<tr>
<td>Reputation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.377**</td>
<td></td>
</tr>
</tbody>
</table>

**Basis:** 33 respondents

* level of significance

** correlation coefficient

With respect to the six pairs of variables, we observe poor correlation between the variables, whereby for the paired variable “New products on the market” and “Promulgation of ideas” the level of significance is greater than the permissible error and can be neglected. In view of the analysis and its correctness, we need to point out that the results from the chi-squared test, due to the comparatively small number of respondents in the sample (33), show that in more than 20% of the cells for each pair,
the theoretical frequency is less than 5, whereas cell theoretical values are below 1 for all paired variables – giving us reasons to interpret correlations between each of them with certain reservations. As this limitation cannot be neglected, the observed relations between the paired variables seek to identify a useful correlation procedure for future studies, providing the sample size is enough to make the procedure feasible.

On the basis of these results, and with necessary arbitrariness, we can affirm that there is a moderate in its influence relation between the score for degree of operators’ satisfaction with realized marketing investment activities and their scores on the effect of these investments on the firm’s performance. The above conclusion relates to the fact that surveyed variables reflect different constructs – “satisfaction with realized marketing investments” and “evaluation of the effect of marketing investments upon firm’s performance” from investor point of view, even though both evaluations are part of the total score on the marketing effectiveness of investing in bio-products. This claim can be verified by the factor analysis method which is utilized for the execution of the third research task.

When the surveyed variables, which describe the two constructs, were subjected to a common factor analysis25, we obtained the following results. More importantly, the reason to conduct factor analysis lies in the research assumption, that both constructs describe different aspects of the perception of MEI. Indeed, the results received from factor extraction26 come in support of that. On the basis of Eigenvalues27 associated with possible linear components (12), a total of three factors have been extracted, which explain 80.6% of total dispersion. This is to say, that the selected three factors describe 80% of the operators’ perception of the marketing effectiveness of investing in the bio-products sector, included in the sample, and can be interpreted as acceptable level.

On the basis of coefficients of the rotation factor matrix, on each of the three factors can be loaded the operationalized variables evaluated by the respondents. (Table 3.)

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25 Formally speaking, the analysis is made possible as the value of Keiser-Meyer-Olkin measure of sample adequacy is 0.649, which justifies the analysis. The Bartlett’s test of sphericity also supports the analysis as the level of significance is 0.000 and we can conclude that the correlation matrix is statistically significant.

26 Using the method of main components and based on Keiser recommendation of Eigenvalues over 1 (for further details, see anov, Multidimensional statistically... c. 142-173).

27 Number of variations, explained by a factor.
Table 3

Composition of factors, which determine the common perception of MEI

<table>
<thead>
<tr>
<th>Satisfaction with MI</th>
<th></th>
<th>Effect of MI upon firm’s performance results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I Factor</td>
<td>II Factor</td>
</tr>
<tr>
<td>Variable</td>
<td>Correlation coefficient</td>
<td>Variable</td>
</tr>
<tr>
<td>Good reputation</td>
<td>0.894</td>
<td>New products</td>
</tr>
<tr>
<td>New products</td>
<td>0.854</td>
<td>Distribution channels</td>
</tr>
<tr>
<td>Customers</td>
<td>0.844</td>
<td>Trademarks</td>
</tr>
<tr>
<td>Promulgation of ideas</td>
<td>0.842</td>
<td></td>
</tr>
<tr>
<td>Trademarks</td>
<td>0.836</td>
<td></td>
</tr>
<tr>
<td>Distribution channels</td>
<td>0.701</td>
<td></td>
</tr>
<tr>
<td>% of explained factor variation</td>
<td>44.34</td>
<td>% of explained factor variation</td>
</tr>
</tbody>
</table>

Basis: 33 respondents

As seen from the above table the variables describing operators’ satisfaction with marketing investment activities have been grouped within one factor. As their correlation coefficients in the factor matrix are comparatively equalized, it would be difficult to determine which variable is the surrogate one28. It is evident though, that the six variables explain 44.34% of the variation, which accounts for almost half of the total variations of the evaluations of marketing investment effectiveness.

Variables which explain the effect of investments made on the firm’s performance can be grouped under two separate factors. The first factor, conventionally called “Potential of investments in the bio-products sector”, accounts for 26.44% of the total explained variation, while the second factor—“Potential of investments in customer relationships” has 9.84%. On the basis of the correlation coefficients of the factor matrix, with variables of the second factor it becomes possible to determine a surrogate variable – “investments in the development and launching of new products”. With the third factor, such variable cannot be defined as the coefficients are quite near in value.

Based on the scores given by the respondents, it is possible to decide the degree of significance which they assign to the variables – for each individual variable and as

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28 Output variable, of higher correlation coefficient than the rest.
a whole. Comparison of the weighted average coefficients of each variable\(^{29}\) indicates that, respondents’ scores are within the range 3.22 to 4, with maximum value of 5, reflecting the effect of marketing investments activities upon the firm’s performance results. Scores within the range of 3.59 to 4.17 show the degree of satisfaction with realized investments – i.e. we can conclude that the surveyed operators of bio-products are rather satisfied with the marketing effectiveness of their investment in terms of production and marketing of bio-products.

With scores reflecting “satisfaction with marketing investment activities”, the highest coefficient is calculated for investments made in establishing a good reputation (4.17), followed by “investments in maintaining good customer relationships” (4.04), whereas “investments in new products and distribution channels” exhibit equal coefficients (3.82).

At the same time, according to the sampled respondents, investment in good customer relationships have the most impact upon the firm’s economic performance (4), followed by investments to establish good reputation of the organization (3.91) and distribution channels bring up the rear (3.91).

In view of the aforementioned results we can conclude that the respondents embraced by the sample see non-financial factors associated with the evaluation and management of MEI as far more important than the rest. There are several possible reasons for that. For example, estimating the exact effect of a marketing investment activity can pose certain difficulties. To estimate this effect, the investment result should be distinguished from normally attained results, which is not an easy task to do. Another problem arises from the situation in which the same operator takes several investment initiatives at the same time. Owing to transfer effects\(^{30}\), and the synergy effect, the immediate investment effect is hard to distinguish from overall performance results of the enterprise.

The above-mentioned problems lead us to the conclusion, that with business entities of limited resource and poorly performing marketing information systems (MIS), it is of practical necessity to apply some of the established metrics (if the material resource and intellectual potential are available) with regards to the overall firm performance rather than in terms of a specific investment activity. The interdependence of applied metrics to the perceived importance of potential areas to invest and subsequent satisfaction with the positive effect of investments made, is largely seen as the result of company market behavior and company operations in a specific market or niche. It is a prerequisite to develop an evaluation basis and procedures for management of MEI, particularly with companies that lack the capital resource and adequate MISs to implement existing corporate practices.

\(^{29}\) Calculated as weighted average values via \(\frac{\sum f x}{\sum f}\), where \(x\) is the rating given by respondents to each variable within the range of 1 to 5, whereas \(f\) is the frequency of giving this rating value by the respondents in the sample.

Conclusion

The conducted survey and its results point to the low popularity of applied financial metrics, aiming to determine the MEI of small firms and firms of limited capital resource. Future research can possibly elucidate on whether the applied methods and factors for evaluation and management of marketing effectiveness have simply proved inadequate for this type of enterprises, owing to their limited capital resource or other financial, time-related and intellectual constraints. More importantly, the findings of the present survey, create grounds for the adoption of an alternative approach to the herein used metrics for evaluation of MEI of small firms, on the basis of studies of investors’ behavior and their subjective opinions on the importance of finding potential sectors for marketing investment. Certainly, the above approach needs to be tested further through surveys on customers’ attitudes to the effect of operators’ marketing activities, so that deviations from the process are identified and it would be possible to overcome any subjective evaluations of the marketing investment effectiveness.

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Assist. Prof. Dr Svilen Ivanov

Abstracts

Marketing efficiency acquires ever-increasing importance, both for the scientific community, and in the practice. At the corporate level there have - in theoretical plan - been developed and are applied a multitude of metrics for its assessment. The question whether these metrics are applicable and whether they are used in the activity of companies possessing scarce resources, has not yet been studied thoroughly.

The main aim of this article is to ascertain within a particular market whether or not small businesses apply in their practice the developed metrics for assessment of the marketing efficiency of their investments.

Keywords: marketing efficiency, marketing efficiency of investments, marketing intangible assets, small businesses.