CHAPTER II
REVIEW OF LITERATURE

Kohli and Jaworski's (1990), Narver and Slater's (1990) and Narver's (1994) articles are pioneer studies on market orientation and firm performance. But no study on market orientation of small firms could be found from the review of literature. The elements of market orientation and the items that characterize different elements are drawn from a review of relevant literature on marketing.

The development of modern marketing was well underway by the time the great depression is supposed to have ushered in the sales era. Certainly the poor economic conditions may have motivated some desperate firms to pursue hard selling. Fullerton (1988, p-120) notes that much of what we consider to be real and modern marketing is in fact devised and used widely long before 1950, in contrast to the notion that such marketing began only 30 years ago.

Originally companies based their marketing decisions largely on immediate company profit calculations. Most companies do not really grasp the marketing concept until driven to it by circumstances like sales decline, rapidly changing customer buying patterns, increased competition and market expenditure. Then they began to recognize
the long-run importance of satisfying consumer wants, and thus introduced the marketing concept (Kotler, 1988, p-24). The entire system of business activities must be customer-oriented. Customer's wants must be recognized and satisfied effectively. A company should (1) be customer-oriented, (2) strive for long term profit through customer satisfaction and (3) coordinate all its marketing activities (Stanton, 1987 p-6).

Marketing is not merely a set of techniques for the business to sell more. Recognizing the long-run importance of satisfying consumer wants, it is a complete approach to running a business through focusing all of the company's actions on to the customer (Brown and Rick, 1987, p-3). The concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors. The company should integrate and coordinate all the activities that will affect customer satisfaction through creating and maintaining customer satisfaction. The aim of marketing is to know and understand customers so well and to design appropriate products with features that fits the customer's needs so well, that the product sells itself (Kotler, 1991 pp5-29).
The marketing concept has generally been adopted by both large and medium-sized companies. In its fullest sense, it is a philosophy of business that states that the customer's want satisfaction is the economic and social justification for a firm's existence. All company activities should therefore be devoted to determining customer's wants and then satisfying those wants, while still making a profit over the long run.

The term "market orientation" means the implementation of the marketing concept. Hence, a market-oriented organization is one whose actions are consistent with the marketing concept. This business philosophy has challenged the previous concepts. "Although it has a long history, its central tenets did not fully crystalize until the mid-1950's" (Houston, 1986, pp. 81-87).

A business that increases its market orientation will improve its market performance (Webster, 1988 pp. 29-39). All of the executives interviewed by Kohli and Jaworski (1990 p-3) noted that a market orientation enhances the performance of an organization. Several executives indicated that in strong economies characterized by strong demand, an organization may be able to survive with a minimal amount of market orientation. But in a weak economy, customers are
likely to be very value conscious and organizations must be more in tune with and responsive to customer needs in order to offer good value for money. "Paradoxically, marketing seems to require more resources precisely at times when the organization is short of resources because of weak business conditions" (Kohli and Jaworski, 1990, p. 1-18).

Kohli and Jaworski (1990, p-13) found that, though a market orientation is likely to be related to business performance in general, under certain conditions it may not be critical. A market orientation requires the commitment of resources. The orientation is useful only if the benefits it affords exceed the cost of those resources. Hence under conditions of limited competition, a market orientation may not be related strongly to business performance. Managers or business operating under these conditions should pay close attention to the cost-benefit ratio of a market orientation.

Two traits found in excellent companies by Peter and Waterman are (1) a drive to provide superior service and quality to customers and (2) a drive to innovate - to develop new products and services. In other words, every one of these companies are marketing oriented. In dealing with their customers, these firms give top priority to finding out what the customers wanted and then creatively developing products and services to
satisfy those wants. In a business only marketing generates the revenues that are managed by the financial people and used by the production people in creating products and services. The main challenge in the economy no longer is to make or grow enough products, but to generate those revenues by satisfying customer's wants at a profit and in a socially responsible manner (Peters and Waterman, 1982 pp. 3-26).

The desire to create superior value for customers will create an organizational culture that in turn will result in continuous superior performance (Deshpande and Webster 1989 pp. 3-15). One Japanese businessman commented that "Our aim goes beyond satisfying the customer. Our aim is to delight the customer". This deeper quest may be the secret of the great marketers. When they delight a customer, the customer talks to even more acquaintances about the fine company. The delighted customers are more effective advertisers than advertisements placed in the media (Kotler, 1988, p-19).

Survey results on successful and unsuccessful business men revealed that the successful small business owners had a different orientation towards their business than did unsuccessful ones. They were oriented towards creating superior value for buyers and, thus, continuous superior performance. Because a market orientation essentially involves
doing something new or different in response to market conditions, it
can be viewed as a form of innovative behavior (Beam, 1988, p-66).

The high concern of today's companies over marketing is reflected in a
recent study in which senior managers of 250 major American
corporations identified their number-one planning challenge to be
"developing, improving, and implementing competitive marketing
strategies" (Kotler, 1988, p-2). Academicians in speeches, textbooks, and
scholarly papers on marketing, state that marketing orientation is the
very heart of modern marketing management. Consequently, the
marketing manager is the most significant functional contributor to the
strategic planning process of a business (Narver and Slater, 1990, p-20).

Felton (1959, pp. 55-65) defines the marketing concept as a corporate state
of mind that insists on the integration and coordination of all the
marketing functions which, in turn, are moulded with all other
corporate functions, for the basic purpose of producing maximum long-
range corporate profits. Kohli and Jaworski define market orientation as
the organization wide information generation and dissemination and
appropriate response related to current and future customer needs and
preferences. (Kohli an Jaworski, 1990, p-21).
Mc Nmara (1972, p-57) defines the concept as a philosophy of business management based upon a company-wide acceptance of the need for customer orientation, profit orientation, and recognition of the importance of communicating the needs of the market to all major corporate departments. Kotler (1988, p-24) states that market focus, customer orientation, co-ordinated, marketing and long term profitability as the four pillars of marketing concept.

Levitt (1960, pp. 45-56) draws the distinction between the selling and marketing concepts; while selling focuses on the needs of the seller, marketing focuses on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash without considering the customers benefit or satisfaction. Marketing is concerned with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it; and that market definitions of a business are superior to product definitions. (Levitt, 1960, pp. 45-46). To maximize a firm's long-run profits, it must continuously create superior value for its target customers. To create continuous superior value for customers, a business must be customer oriented, competitor oriented, and interfunctionally
coordinated. All components of market orientation are thus interconnected (Narver and Slater, 1990, pp. 20-35).

Four different elements of marketing orientation have been identified from the review of literature. They are Customer orientation, competitor orientation, long term focus and interfunctional coordination. The different items that characterize each elements also have been drawn from the review of literature.

**Customer Orientation**

Customer orientation is the sufficient understanding of one's target buyers to be able to create superior value for them continuously (Narver and Slater, 1990, pp. 1-35).

Companies cannot survive today by simply doing a good job. They must do an excellent job if they are to succeed in markets characterized by fierce competition. Consumers experience an abundance of choices to satisfy their needs and therefore look for excellence in quality when they buy a product. Knowing and satisfying the customers with competitively superior offers is the key to profitable performance. A customer-oriented company should track its customer satisfaction
level and monitor competitors activities each period and set improvement goals (Kotler, 1988, p-30).

Productivity is of little value if one is producing goods and services that lack the attributes preferred in the market place (Daniels, 1991, p-5). Therefore, a customer-oriented firm can be defined, as a firm with the ability and the will to identify, analyse, understand, and answer user needs. (Gatignon and Xuereb, 1997, p-76-90). Desphande, Farley, and Webster (1993, p-27) define customer orientation as "the set of beliefs that puts the customer interest first".

In general marketing theory predicts that customer oriented firms serve the needs of the consumers better, specially by providing products that fit their needs best (Griffin and Hauser 1993 pp. 1-28). This creates an advantage for the product. Which is perceived by consumers as fitting their needs better than the competitor does (Cooper 1988). This requires competitive orientation and customer orientation at the same time.

Customers reign supreme (Peters and Waterman, 1982, p-XXII). Customers can determine where; when and how they want goods to be delivered; they can even specify the manner in which they want goods to be handled before and after delivery. (Gilbert and Pine 1997 pp. 91-101).
Peters and Waterman (1982, p-169) suggest that customer orientation is the most important component of a market orientation.

A business must constantly discover and implement additional value for its customers, which requires a range of appropriate tactics and investments. A seller has to find numerous alternative opportunities for creating additional benefits for the customers (Narver and Slater, 1990, pp. 20-35). To be customer oriented a firm must recognize whether there is an untapped source of customers and the product or service, presented in the right way to attract the right customers. (Steinhoff, 1978, p-21).

The marketing program starts with the germ of a product idea and does not end until the customer's wants are completely satisfied, which may be some time after the sale is made. A seller must understand the needs as well as constraints of its consumer. Only then can a seller understand who its potential customers are at present as well as who they may be in the future, what they want now as well as what they may want in the future (Webster, 1988, pp.29-39).
When market demand is growing, it is easier for all sellers to acquire and retain customers and earn profits (Cooper 1984, pp. 93-103). In addition, growing markets are at the early stages of the product life cycle. Consequently little information is available on these markets. (Carpenter and Nakamoto, 1989, pp. 285-298). Therefore, a strong customer orientation is necessary to understand these newly created markets.

Compared to slow-growing markets, a stronger customer orientation and a stronger competitor orientation are required in fast-growing markets to achieve a similar level of performance. (Gatignon and Xuereb, 1997, p-81). To perform above average, a firm will have to stay ahead of competitors and increase its market share (Porter 1991). Market share is increased by attracting new customers and retaining existing ones.

Regardless of size, all-businesses need information regarding their markets, customers, competition, and their own market position in order to plan marketing strategies (Barnes and Noonan, 1982, p-62). Market orientation includes an analysis of changing conditions in the environment and their impact on the needs and wants of customers (Kohli and Jansorski, 1990, p-4). "The more they know about their markets, the greater their chance of creating customers at a profit".

Market Orientation thus should begin with factual information about the market place. Without such information any firm, large or small, will find itself at a disadvantage in today's business environment. (Brown and Rick, 1987, p-2). Information gathering system or Market Intelligence is thus indispensable for market oriented firms and the starting point of market orientation. (Kohli and Jaworski, 1998, pp. 1-18). Formal market research, which aides to find solutions to specific problems facing the company is an indispensable ingredient of the modern marketing concept, in that companies can serve their customers only by researching their needs and wants and their buying practices, (Kotler, 1968, p-68).

A company's marketing system operates within the framework of ever changing forces that constitute the system's environment. These forces are either external of internal to the firm. The internal forces are inherent in the organization and are controlled by management. The company must also be able to manage its external environmental forces.
that are largely, but not totally uncontrollable by the management. (Stanton and Futrell, 1987. pp. 21-23).

The marketing system is affected by such economic considerations as the current stage of the business cycle, inflation, and interest rates; political and legal forces, like the fiscal policies, Government's relationship with industries; and social influences such as culture etc. Similarly, changes in technology will create threats to an existing business and an opportunity for new business. A company's competitive environment is also a major influence shaping its marketing system. Management must be aware of the various types of competition and the competitive structure within which a given firm operates. The firm's immediate marketing intermediaries like the producers and suppliers also affect the firm's ability to serve the market efficiently (Stanton and Futrell, 1987, pp. 21-35).

In general, the company has to monitor key macroenvironmental factors like demographic, economic, technological, political, legal, social, and cultural forces that affect its business and the significant microenvironment factors like customers, competitors, distribution channels, suppliers etc., that affect its ability to earn profits in the market place. The business must have a marketing intelligence system.
to track trends and important developments in the environment. The key to organizational survival is the organization's ability to modify itself as the environment changes. Successful organizations monitor the environment and make changes through anticipatory planning so as to maintain a fairly current strategic fit with the evolving environment (Kotler, 1988, pp. 50-62). Effective market intelligence pertains not just to current needs, but to future needs as well. It urges organizations to anticipate needs of customers and initiate steps to meet them. Market intelligence is thus a broader concept in that it includes consideration of market factors that affect customer needs both current as well as future (Houston, 1986, p.87).

To attract new customers and to retain existing ones, firms should monitor changes in the customer's environment, abilities and resources; and find whether they are likely to remain as customers? Are they sound financially? Which segments are likely to grow faster, providing more sales opportunity for the firm? (Moyer, 1982 p-13). A seller in any industry must maintain a current and thorough understanding of a buyer if the seller is to continue to create superior value for the buyer. (Narver and Slater, 1990 p-27). A seller must understand the economic and political constraints at all levels in the
channel. Only with such a framework can a seller understand who its potential customers are at present as well as who they may be in the future, what they want now as well as what they may want in the future, and what they perceive now as well as what they may perceive in the future as relevant satisfiers of their wants." (Narver and Slater, 1990, p-21).

The knowledge of the external environment is more significant when the demand is uncertain and consumer preferences keep changing (Gatignon and Xuereb, 1997, p-81). The marketing executives should be alert to trends, new developments, and other changes that may result marketing opportunities or problems for their particular firm. (Stanton and Futrell, 1987, p-30)

Data on new business ventures that failed, listed the following as major reasons for failure: 1) inadequate market knowledge 2) ineffective marketing and sales efforts; 3) inadequate awareness of competitive pressures and 4) rapid product obsolescence. (Terpstra and Olson, 1993, p-6).
The generation of market intelligence cannot be the exclusive responsibility of the marketing department. Rather, market intelligence is generated collectively by individuals and departments throughout an organization. Intelligence generated at one department must be disseminated effectively to the other departments of the organizations. For example, customer information in a manufacturing firm is disseminated throughout by telling stories about customers, their needs, personality characteristics, and even their families. "The idea is to have the secretaries, engineers, and production personnel "get to know" customers". (Kohli and Jaworski, 1990 pp. 4-5).

Several studies demonstrate clearly that smaller companies are less likely to have formal market research departments and less likely to gather market intelligence in general. (Barnes, Pynn and Noonan, 1982, p-64). Small firms have little organized data collection on markets and competitors. (Kirk and Noonan, 1982 p-3). Small business lack even those data available to the larger organization. Since their competitors are often privately held, published information is often unavailable. (Dowel, Frazier and Stephenson, 1982, p-46). A Canadian study which covered more than 300 small firms found that only half engaged in even the most rudimentary form of sales forecasting, and just 37 per cent only
conducted some form of customer analysis. (Barnes, Pynn and Noonan, 1982, p-62).

In large companies, collecting, analysing, and interpreting marketing information is the function of the marketing research department or the Marketing Information System (MIS). Small companies however, cannot often afford to hire an outside expert whereas the large firm can employ a market-research manager, an advertising manager, a distribution manager, and a sales manager (Brown and Rick, 1987, p-2).

Large numbers of small business fail each year because they have not adequately identified the characteristics of their target market. When marketing programs are used at all, they are often inadequate to meet the needs of any specific market segment. A small business may be established on the basis of a potentially successful concept, but if it fails to make its product or service attractive to the target market, the business will fail. Thus, once a business is established, it must have access to ongoing marketing information in order to react to change and plan appropriately. The information which is required on a continuous basis by all businesses included analysis of various product, customers and sales territories. The small business is also occasionally in need of *ad hoc* studies, which might involve the testing of new products or packages.
Barnes, Pynn and Noonan (1982, p-63) noted that managers of small businesses often think that marketing research can be done only by experts in large companies with big research budgets. Many small business managers are intimidated by the concept of marketing research, which is generally perceived to be too complex and therefore inappropriate for use in small business. Market research techniques may be used relatively little by small businesses for a number of reasons. First, many small business managers feel that they simply do not have the time to supervise marketing research projects. Second, most small business managers admit to having very little knowledge of the details of marketing research. Third, marketing research is thought to be very expensive. Finally, one of the most important barriers to the use of marketing research in small firms is the attitude among managers that marketing research is simply too irrelevant.

Boughton (1983, p-39) states that the small firm, with untrained staff and limited resources can conduct meaningful marketing research studies provided that management understands the problems involved and recognizes that the acquisition of meaningful information should be
viewed as an investment upon which a return should be expected. Managers should take a cost trade-off perspective which weighs the value of expected information against the cost of obtaining the information. Good research need not be prohibitively expensive. There are a number of ways of reducing costs so that even small businesses can afford good marketing research. (Boughton, 1983 p-40).

The small firm need not burden itself with a detailed formal planning document, an extensive reporting system or an avalanche of paper work. Many market research is nothing more than the collection of marketing information and this need not be complicated, costly or highly technical (Moyer, 1982, pp.13-14).

Intelligence may be generated through a variety of formal as well as informal means and may involve collecting primary data or consulting secondary sources. The mechanisms may include meetings and discussions with customers, distributors, analysis of sales reports, analysis of customer databases, and formal market research such as customer attitude surveys, sales response in test markets, and so on (Kohli and Jaworski, 1990 p-45). Many small businesses are unaware of or ignore, the fact that there is a considerable volume of secondary information available at little or no cost, concerning the market in which
the business operates. Much of this information is available within the firm. By analysing customer's complaint records, sales records, service invoices, and salesman's reports, the small business manager can obtain much valuable information about the market. (Barnes, Pynn and Noonan, 1982, p.64).

Small organisations have access to most of the secondary data available to large businesses. Thus secondary data collection, observation, surveys, and experiments can be used effectively by small organisations with small budgets. (Kotler, 1989, p.12). Many of the marketing research techniques can be used less formally by smaller organisations to make correct marketing decisions. Managers of small business can obtain much marketing information by observing the events and behaviour around them. For example, retailers can evaluate new outlet locations by observing vehicle and pedestrian traffic. They can visit competing stores to check on facilities and prices. They can evaluate their customer mix by watching and recording how many and what kinds of customers shop in the store at different times of the day and different days of the week. Competitor advertising can be monitored through the systematic collection of advertisements in local media. Local newspapers and magazines often provide information on the characteristics and buying patterns of local shoppers (Kotler, 1989, p.111). Barnes (1982, p.63)
states that the small business manager may also combine in-house expertise with that of professional researchers.

Boughton (1983,p-40) gives a list of marketing research questions that are relevant for many small firms (Table 2-1).
### Table 2-1
Marketing Questions of Small Businesses

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<td>What factors influence demand?</td>
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<td>What functions does the product/service perform for the customer?</td>
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<td>What are important buying criteria?</td>
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<td>What is the basis of comparison with other products?</td>
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<td>What risks does the customer perceive?</td>
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<td>What service do customers expect?</td>
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<td>Where is the decision made to buy?</td>
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<td>Where do customers seek information about the product?</td>
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<td>Where do customers buy the product?</td>
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<td>When is the first decision to buy made?</td>
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<td>Why do customers buy?</td>
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<td>Why do customers choose one brand as opposed to another?</td>
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<td>Who are the occupants of segments identified?</td>
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<td>Who buys our product and why?</td>
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<td>Who buys our competitors products and why?</td>
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<td>How do customers buy?</td>
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<td>How long does the buying process last?</td>
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<td>How do various elements of the marketing program influence customers at each stage of the process?</td>
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<td>How do customers use the product?</td>
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<td>How does the product fit into their life-style or operation?</td>
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<td>How much are they willing to spend?</td>
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<td>How much do they buy?</td>
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For the small scale planner, luckily size is no deterrent to its effective use. Most studies show that size adds little to research intensity to detract small firms from conducting market research activities. The end result is no different for the small-scale planning firm than it is for the large one. The process varies only in scale from the large to the small firm (Green, 1972, pp. 22-23).

Market intelligence also includes a firms responsiveness to the intelligence generated. Market orientation consists of organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it. Responsiveness to market intelligence takes the form of selecting target markets, designing and offering products, services that cater to their current and anticipated needs, and producing, distributing and promoting the products in a way that elicits favourable end-customer response. In other words, a market intelligence enables an organization to be market focussed, decide on the products and marketing programme and to remain competitive. (Kohli and Jaworski, 1990 p-3).

No company can operate in every market and satisfy every need. To be customer oriented, targeting all people in a market is not a typical
strategy. To be customer oriented and give superior value to customers, a business cannot operate aimlessly in all markets. Each business must be specific in terms of its market. It must be market focussed or, in other words to be customer oriented, a firm must define the boundaries of its market (Cravens and Shipp, 1991, p-57). "Even mighty IBM cannot offer the best solutions for every computer customer need. Companies do best when they define the boundaries of their markets carefully. They do best when they prepare a tailored marketing programme for each target market" (Kotler, 1988, p-18). Markets and buyer needs often change rapidly, and businesses must define themselves accordingly (Kirk and Noonan, 1982, p-2). Market focus involves studying and defining the customer needs so well so as to give maximum benefit and satisfaction to the target customers than the competitors does.

A business should be defined, in terms of three dimensions, the customer groups that will be served, the customer needs that will be met and the technology that will satisfy these needs (Kolter, 1988, p-39). The definition should include, (a) Product and market scope: in particular, which customers are to be served, which customer functions (needs) are to be satisfied, and what ways (technologies) are to be used to satisfy the functions: (b) product and market segmentation: in particular, whether and how the firm recognizes differences among customers in
terms of their needs and the ways they are satisfied. Business
definition demands creativity rather than the use of massive resources,
so the small firm need not deny itself this most important element of the
strategic planning process (Moyer, 1982, p.9).

Customer-oriented thinking requires the company to carefully define
customer needs from the customer point of view. Only if customer
satisfaction is fulfilled, organizational goals can be met. It is supremely
important to satisfy the customer because company's sales come from two
groups: new customers and repeat customers. It is always more costly to
attract new customers than to retain current customers. Therefore
customer retention is more critical than customer attraction. A satisfied
customer buys again, talks favourably to others about the company,
pays less attention to competing brands and advertising and buys other
products that the company later adds to its line. Whereas a satisfied
customer tells three people about a good product experience, a
dissatisfied customer tells to eleven people. In one study, however 13
per cent of the people who had a problem with an organization
complained about the company to more than twenty persons (Kotler,
1988, pp. 18-19).
Defining the customer enables a firm to decide on product quality, pricing, promotion, distribution channels provision of customer service and support, and brand names (Kotev and Meredith 1997, p-38). Peters and Waterman (1982, p-182) notes the customer orientation is a way of "tailoring"—a way of finding a particular niche where the firm is better at something than anybody else.

Product or service means the total entity to be marketed which includes any aspect of it, such as the design, technology, the manufacturing process, the distribution channel, the customer segment and the promotional strategy (Sonfield and Lussier, 1997 p-54). Market focus helps the firms to learn a large part of the market's technical issues and provides an evaluation of possible segments, the importance of the market, and its growth rate. (Gatignon and Xuereb, 1997, p-76).

Modern marketing practice calls for dividing the market into major market segments, evaluating them, selecting and targeting certain ones and deciding on the company's positioning in each market. By assessing what the firm and the people within it are particularly good at, the owner manager has to identify the areas of business where the firm can be most successful, and least successful (Brown and Rick, 1987. p-5)
In principle, firms may choose varying degrees of segmentation, following an unconcentrated strategy involving little or no segmentation, a differential marketing strategy involving serving of multiple market segments with specific products and marketing programs, or a concentrated strategy under which the firm consolidates its efforts on one or a few particular submarkets. In practice, however, only large firms are able to follow the unconcentrated or differentiated strategies. The small firm must concentrate its limited resources on a marketing program designed to serve a limited well-defined group of consumers. To profitably serve regional and national market require large, complex organizational structures and certain economics of scale that go beyond the capabilities of most small firms (Chagnati and Chagnati, 1983, p-50).

According to Moyer (1982, p-13) the following information are useful for the small firms for customer analysis.

(i) Where do customers buy your products (or where they would prefer to buy them)

(ii) What attributes of the products are attractive to customers?

(iii) How rapidly are sales of specific products likely to increase?

(iv) What opportunities exist for segmenting the market into smaller groups which might be targets for unique product offerings?
Performance of smaller businesses depends on local market conditions. Focusing on local markets and avoiding the logistic and organizational complexities associated with distant markets seems to be the most appropriate strategy for small firms. Reasons advanced for the heavy dependence on local markets are lack of funds for extensive distribution and limited brand acceptance. Small businesses tend to have limited product and service lines targeted for a specific groups of geographic locations. Most small entrepreneurs cater to the lower end of the market, i.e., the price conscious segment. By focusing on local markets, savings can be made on advertising and distribution costs. The price conscious consumers would be easily won over by the lower price tag. Although costs in small units are low at certain scale of operations because of low overheads, margins are not enough to support significant growth. As a result, most of the units remain single brand product entities with little product improvement over the years. (Digests, 1994, p-5).

To be market focussed a seller must recognize whether there is an untapped source of customers and the product or service, presented in the right way to attract the right customers. (Steinhoff, 1978, p-91)

While developing products, marketers must first identify the core
consumer needs the product will satisfy. They must then design the tangible product and search for ways to augment the product to create a bundle of benefits that will best satisfy consumer's desire than the competitor does (Kotler, 1989, p-298). "If we can ensure that the product meets the customer's needs, selling becomes a much easier task" (Brown and Rick, 1987, p-4).

Staley and Morse, (1965, pp.122-123) give some examples of products and services, where the small firms can meet the needs of customers successfully. Certain consumer goods as well as industrial goods, where the shipping costs are so high so as to limit a plant's effective market to its nearby hinterland are suitable for small scale industry. Products such as bottled and canned soft drinks, manufactured ice, ice cream and frozen desserts, prepared animal feeds, door and window frames, wood moldings etc, which are bulky, heavy or perishable accounting for high transportation costs favour small scale operation by small firms located near consuming markets.

Products with limited total demand viz, fresh and frozen packaged fish, rich milling, raw cane sugar, canvas products like tarpaulin covers, autoseat covers, leathergloves, lampshades, household furniture etc, are
naturally suited to small plants, if their manufacture does not require heavy equipment. Locational factors are the most significant in causing predominance of small plants in such industries.

The individualized requirements of a variety of industrial, institutional and business customers, often calling for quick execution, can in many cases be met most efficiently by small firms whose proprietors have face to face contact with their principal customers.

Products like printing ink, bookbinding, footwear, Glue, gelatin etc. where only simple physical operations are required in the manufacture are suitable for small scale industry. The principal operations for these products do not require machinery of great capacity to achieve meaningful scale economies.

Special tools as well as low-volume machine parts are usually custom-made in individual units. The opportunity for high volume economies on such small lot orders is limited by the low proportion of machine operating time to the time utilized in precision hand operations, tooling, and set up. These plants typically use general purpose machine tools which are versatile in performing a variety of standard metal cutting or grinding operations. Flexibility in shifting to new orders
and craftsmanship in their execution are at a premium in such establishments.

Assembly industries in general offer more opportunity to small-scale operations than continuous process industries. In an assembly unit many of the advantages of division of labour and finely coordinated production scheduling can be achieved even for relatively short production runs. (Siroplolis 1982.)

The fragmentation of needs and wants in market results in subgroups of buyers within the market, each displaying different customer satisfaction requirements. Such differentiation provides opportunities for businesses to design product offering to meet the need of customers in different market segments. The market place will therefore demand customized products and services. (Cravens, and Shipp, 1991, p-57).

Existing customers will remain loyal to a firm so long as they are convinced of the superiority of its products over those of competitors. (Kotey and Meredith, 1997, p-42). Most of the product failures are due to the undifferentiated nature of the products, which are marketed as commodities (Digest, 1993, p-4). The product has to be unique and truly innovative to achieve a major advantage in the market places, Unless
they are clearly differentiated they tend to be viewed as generic and can easily be imitated (Brentani, 1989, pp. 239-258).

Differentiation is most important in industries where there are sustained surpluses and excess capacity. Unless the smaller businesses are able to differentiate through ancillary intangibles offered, they are likely to be squeezed out by the largest competitors which, as a result of economies of scale and lower unit overhead costs, are able to underprice their smaller competitors consistently (Barker and Gimpl, 1982, pp.1-2).

The superiority and range of products offered by the firm will also determine its ability to attract new customers. Activities associated with market share increases will therefore include improving existing products to meet changing customer requirements; developing new products; and emphasizing product quality (Robinson and Pearce 1988, pp. 43-60).

Through specialization the small firm can differentiate or compete with large scale manufacturers. The advantage of customer specialization is that the firm focus on a definite market which results in restricted competition (Chisnall, 1987, p-4). Also, the quality of customer service offered will determine a firm's ability to retain, new and existing customers, Customer services include, among others, assistance with...
purchase decision, home delivery, customer credit, and prompt refunds for goods returned. (Kotey and Meredith, 1997 p-43).

Most strategies of most of the successful firms are built on differentiations, offering customers something they value that competitors don't have. A company has the opportunity to differentiate itself at every point where it comes in contact with its customers.

If companies open up their creative thinking to their customer's entire experience with a product or service they can uncover opportunities to position their offerings in ways that they, and their competitors, would never have thought possible. (MacMillan and McGrawth, 1997 p-133).

Areas for differentiation of products include the product/service delivery system, performance of the product/service, the image of the company/product/brand/ and the customer's perceived price-value relationship of the product service (Cravens, David and Shipp, 1991, p-56).

Small firms can take advantage of the growing interest in custom-built goods and carve out for themselves profitable micro-markets or market niches based on attractive styling and technical superiority. In overseas markets in particular, there are many opportunities for quality products where price is by no means the dominant bargaining factor.
Design should make the most of the qualities of utility, aesthetic appeal, and status association in order to increase value-in-exchange, which is the root of successful trading. (Chisnall 1987, pp. 3-4).

Much of the success of small business lies in the fact that they develop products and services with high value added content. In other words, they offer their customers quality goods which are directly related to their needs. The small business has direct contact with customers and can act quickly to their demands. Specialization in product/service design is more likely to lead to success. High value-addition should be designed into the products and must match the customers' expectations in terms of performance, price, delivery, after-sales services etc. (Chisnall, 1987 pp.3-9).

Botton (1978 p-46) attributes the success of Scandinavian consumer goods industries in the world market to product differentiation by individual freelance designers. Barker and Gimpl (1982, pp.1-2) notes, how an enterprising Japanese grower differentiated apples. The red delicious apples offered for sale by one supplier would normally be indistinguishable in a given market from those offered by another. The only difference would be the price and possibly the brand name. To differentiate his product, the Japanese grower attached to his ripening
apples a piece of cellophane tape with the characters for health, good luck and happiness imprinted on the tape. When the tape was removed the characters where branded into the skin of the apple, thus providing a unique way of branding and differentiating that particular grower's apples. Packed four in a special box, these proved to be a very popular wedding gift and sold for many times the usual price of apples in Japan.

Market turbulence and competitive threats of the 1990s place a high priority on innovation. (Cravens and Shipp, 1991, p-57). A useful watchword for management is to 'innovate or die'. New product development and adoption of new production and marketing methods are associated with creativity and innovation. (Kotey and Meredith, 1997, p-44). Innovation is defined as the creation of something new and different.

Companies that achieve a competitive advantage often are first in the market with a truly innovation idea. The new services they develop are superior, they solve previously poorly solved problems or they offer customers better value. (Brentani, 1989 p-247). An innovation that is similar to existing products cannot be highly differentiated and therefore cannot have a major advantage over the existing products or competitors.
The greater a new product's relative advantage the more radical is its performance (Gatignon and Xuereb, 1997 pp. 80-82).

Most researchers agree that the underlying variables which explain new product success include understanding and responding to customer needs, marketing proficiency, top management's support for the new product uniqueness and superiority and effective project management. Innovative marketing requires that the company continually seek real product and marketing improvements. The company that overlooks new and better ways to do things will eventually lose to a company that finds a better way (Kotler, 1991 p-640).

Innovation involves willingness to change. Change in turn involves some degree of risk-taking by owner-managers. Those who place high value on creativity and innovation are also likely to value competence, personal growth, risk-taking, and optimism. Firms which perform below average tend to avoid risk and involve little innovation (Kotev and Meredith 1997, pp. 39-44). Most successful innovative firms select certain types of new products as a function of market competitive characteristics. Consequently, a competitor orientation is required for the commercial performance of innovations. (Cooper 1984, pp. 151-164).
The more customer-competitor oriented the firms are, the greater the relative advantage of their innovations. Thus customer orientation and competitive orientation are needed for designing innovations that have a strong relative advantage. (Gatignon and Xuereb, 1997, p-80). The nature of the innovations is affected by the level of competition intensity. In particular management must pay greater attention to costs in a competitively intense market, partly because of the greater pressure on prices (Porter 1980). In today's markets, the speed of product introduction can spell the difference between success and failure. Quick innovation and product introduction also increase a company's ability to respond to a fast changing market place.

In large companies rigid structures inhibit speedy introduction of new products and technology. The entrepreneurial nature of the small firms facilitates innovation. The entrepreneurial nature of the small firms is positively correlated with innovation. “Formalization and centralization are considered to vary inversely with innovation” (Khan and Manopichetwattana, 1989,p-589).

“Entrepreneurship is the capacity for innovation, investment, and expansion in new markets, products, and techniques” (Siropolis, 1982, p-29). The entrepreneur is the primemover in economic development; his
function is to innovate or carry out new combinations. Five types of innovations are distinguished. The introduction of a new good; the introduction of a new method of production; the conquest of a new source of supply; the introduction of new materials; and the creation of a new type of industrial organisation. Anyone who performs this function is an entrepreneur (Ramana and Papaiah, 1998, p-51).

Competitor Orientation

Competitor orientation means that a seller understands the short-term strengths and weaknesses and long-term capabilities and strategies of both the current and the potential competitors so as to satisfy the current and expected needs of the seller's target buyers. (Narver and Slater, 1990, pp20-35). Competitor orientation enables an organisation to stay viable and give superior benefit to the target customers than the competitors. Customer orientation and competitor orientation thus overlap. (Webster, 1988, pp29-39). A competitor orientation can be defined as the ability and the will to identify, analyze and respond to competitor's actions (Narver and Slater, 1990)

In a highly competitive economy, success generally favours the venture that does its job with superior skill. (Siropolis, 1982, p-321). Most researchers now incorporate some aspect of competitive superiority as
an essential indicator of success. (Brentani, 1989, p-246). Various studies have revealed that growth firms are marked by a strong competitive drive. Successful manufacturers stated that a strong desire to compete in the business world is an essential element of survival and growth. (Staley and Morse, 1965, p-131).

In a highly competitive market, a firm needs a strong competitor orientation to identify the competitor's strengths and weaknesses to develop competitive advantages, and anticipate competitors' reactions. Consequently, the required level of competitor orientation of a firm must be highly linked with the competitive level of the markets in which the firms operate. (Gatignon and Xuereb, 1997, pp. 77-90).

Furthermore, competitors are particularly attractive to each other's move in high-growth markets in which strong competitive rivalry has been observed (Ramaswamy, Gatignon, and Reibstein 1994, pp. 77-90). Therefore, a strong competitor orientation is also necessary to track and anticipate competitive activities.

Market oriented entrepreneurs must also review competition periodically and respond to competitor activity by formulating appropriate marketing plan to serve the customers more efficiently.
than the competitor does. The marketing plan provides the proper mix of product, price, distribution, and promotion variables. These four variables are not placed in neat strategic cells but are closely interrelated. A successful marketing plan revolves around putting together the proper blend of marketing mix more effectively than the competitor does. Management should look for a blend that allows the business to distinguish itself in the market so that competitive challenges can easily be met. (Kirk and Noonan, 1982,p-5)

Most firms that survive for any period of time possess unique skills that have been translated into success. The firms must collect data that measure areas of strength and weakness. Thus, the firm may inventory its plant and equipment (age, condition, etc.), its personnel (age, skill levels etc.), its financial status (balance sheet condition, borrowing power, liquidity, etc.), its product development record, and other performance criteria. (Moyer, 1982,p-10)

Within any given market segment there are initial success factors for winning the business eg: reliable delivery, acceptable design, low running costs and so on. It will be essential for the company to establish what when and how well it compares with its closest competitors when measured against these factors.
Moyer (1982p-10) gives a list of information useful for competitor analysis.

- How do customers view your competitors products and services?
- What is the competitors financial status?
- Do the competitors sell a full product-line or do holes exist that you might fill?
- What are the competitor's apparent strategies?
  Do they provide opportunities or pose threats that your planning should take account of?
- What strategic moves are competitors likely to make in the near future?
  What would be an appropriate response to these moves?
- How do their costs compare to your's? Does the disparity in your costs create problems (opportunities)?
- How big are the competitors marketing budgets? Increasing or decreasing?
- What specific strengths and weaknesses (aside from those covered above) do the competitors exhibit?

The performance of an enterprise is determined by the business strategy it adopts. A business strategy is an overall plan of action which defines the competitive position of a firm. For example, a firm may choose to compete by producing high quality goods or by producing at low cost. Business strategies are implemented through the major functional strategies of marketing, finance, human resource management,
production, and research and development. In turn, each functional strategy is made up of several activities. (Kotey and Meredith, 1997, p-38)

To gain a competitive advantage a business can pursue differentiation and/or low cost strategies. To be a low cost supplier the firm must possess internal efficiency and scale economy. Teece, Pisano and Shuen (1997, p-25), have argued that some sources of competitive advantage are so complex that the firm itself does not understand them.

In low cost strategy, the competitive position of a product is its cost. The lower the cost, the greater the potential for profits, either by setting higher margins or by generating the market with a lower price. Narver and Slater (1990, p-30) found a positive relationship between cost advantage of a business and its profitability.

For each product/Industry, there exists a certain minimum economic size below which the unit will not be viable. The minimum economic size of a unit varies from industry to industry, depending on the nature of the product to be manufactured, complexity of the manufacturing process, size of the market, availability of raw materials, nearness to market and other factors of production like capital and labour. To remain competitive the small scale industries must consider these
factors and choose industries were the optimum size of the plant is small. (Desai, 1991, p-410)

If the cost of setting up a plant of efficient size in the desired line is not too high and if the cost per unit of output in such a plant approximates that of established firms, then an entrepreneur has a reasonable expectation of success (Peterson, 1982, p-14). Preston (1977, pp13-19) states that most of the successful small business industries are those in which the firms' optimum scale is small and those which are built on successful specialization.

But virtually every product, service or the way they are produced and delivered can be copied, often in a different part of the world, almost overnight. The solution lies in identifying the intangible competitive advantages that are not easily visible to the competitors and therefore almost impossible to copy. The benefits are a sustainable competitive advantage, lower operating costs and higher revenue (Whitehill, 1997, p-621). As tangible assets and resources offer decreasing competitive advantage, organisations must turn to their intangible assets. Intellectual capital such as patents, brands and organisational or process knowledge are typical competitive advantage that cannot be copied (Whitehill, 1997, p-621). Trade secrets and certain specialized
production facilities and engineering experience are examples of competitive strengths, which are difficult to imitate (Teece, Pisano and Shuen, 1997, p-516).

Production methods become obsolete over time, and firms will not be competitive if they do not adopt new production technologies (Anderson, Cleverland, and Schroeder 1989; pp133-158). Competitive firms are strongly R & D-oriented, are proactive in acquiring new technologies, and use sophisticated technologies in the development of their new products (Cooper, 1994; pp.60-76).

Levitt (1981, pp.102) argues that companies can reduce costs by substituting capital for labour and by introducing latest technology. Mitchell and Mabert (1986, p-16) states that firms must be prepared to incorporate robots in their manufacturing operations. Installation of robots have improved the competitive strengths of the small manufacturers. New production technologies are necessary for new lines and for improvements in existing lines. However, adopting new technologies without attention to cost will leave firms vulnerable to competitors selling similar products at lower prices (Wright et al, 1990).
Small firms find it difficult to keep abreast of technological change. Firms that select product categories which are subject to fast changes in technology and high obsolescence rate will find themselves trapped in declining market. (Bolton, 1978,p-114).

The flexible manufacturing technology allows a firm to produce differentiated products, whereas the inflexible technology limits the firm to produce a homogenous product. (Roller and Tombak p,1993,p-108)

Fashion goods viz. women's apparels for example possess features which generally possess a short life. In such cases, the products can be modified to meet what is wanted by the customer. Here, flexibility allows for reduced lot sizes, quick change over, minimal inventories, and simplicity. Similarly, most of the engineering units which mainly consists of assembling and fabrication, the customer needs could be met by modifying the product without any alteration of the machinery. (Vesey, 1991,p-32)

A study on small firms (Chagnati and Chagnati, 1983, pp. 50) found that the most profitable group of small firms took an approach that seems to combine salient elements of different strategies. They concentrated on local markets, offered a board line of products, and frequently changed
the products offered. This combination seemed to work very well in generating profits. This indicate two things: first products offered and markets served together determined the profit level of a small business. Stressing only on product or market aspects limits profitability second business location is important. Proximity to markets appears to enhance profitability for small business.

The percentage of the sales to local markets was higher, the product lines broader, the frequency with which they modified products or introduced new ones was very high. Breadth of product line in the losing firms was relatively narrow despite the fact that the firms offer mostly customized goods. Frequency with which the firms modified old products or introduced new ones was relatively low. Moyer and Roberts (1986,p-821) found that small firms benefit from capitalizing on their expertise, developing products based on a single core technology.

Some technical and business forces moderate the trend towards bigness and give the competitive advantage to small plants. The owner/manager of small business must gain an understanding of small business marketing limitations and concentrate on the advantages typically possessed by a small enterprise. In a study on small firms, it was found that those firms that exist because they fill the cracks between th
standardized outputs of large firms reported no competition from larger or smaller firms. This is perhaps largely because they fit into the voids in which larger firms find operations unprofitable (Staley and Morese, 1965, pp. 100-129).

The most important competitive advantage for the small business is the ability to select target segments that are not economically viable for large firms. With rapidly changing markets, small businesses can identify key market segments early and act quickly with a balanced strategic plan. Millions have been made by small computer software companies that have serviced segments too small for IBM to consider. (Kirk and Noonan, 1987, p-5)

Rajan (1990, pp. 38-40) gives an example which explains the advantages of small manufactures to cater to the needs of small segments. The break of the retail price of Rs 100 per Kilogram of branded potato chips produced by large scale manufacturer is as follows. Raw materials cost Rs 29; packaging Rs 18, flavouring Rs 17; excise Rs 6; stockist and retailer margins take up Rs 20; and the company is left with a mere Rs 10 to meet establishment costs, which are in the region of Rs 20 per 100kg for a 70 tonne output per month.
One analogy likens the large firm to a giant oil tanker, which takes five miles to turn and 20 miles to stop; the small firm by contrast is likened to a speedboat. The large firm's advantage is its power and momentum once embarked on its course, whereas the small firm's advantage is its speed and manoeuverability. (Brown and Rick, 1987, p-41)

Small firms have distinct advantages in the following situations.

1. When the personal attention of the owner is essential to daily operations.

2. Where personal services, either professional or skilled are dominant.

3. When the market for the product or service is mainly local.

4. When the firm deals in perishable materials or products.

5. When only a limited market is available or sought.

6. When the industry is characterized by wide variations in demand or in styles.

7. When closed rapport with personnel is essential to meet the customers specifications.

Proximity of markets and raw material is another competitive advantage possessed by certain successful firms. Certain categories of industries located near the market has a competitive advantage over rivals. This is particularly true of the industries with manufacturing process that involves an increase in weight and / or bulk. In such cases, the transport and distribution costs can be minimised by being closer to the market.
Bottling of drinks is a very good example. Industries with fragile and perishable output also have a tendency to be located closer to the markets. Location is more vital in some industries than other (Cherunilam, Francis, 1986, p-254).

Staley and Morse (1965, p-112) have found that the industries in which small plants have advantage can be grouped into eight types. Three of these types are strongly influenced by factors which make for dispersed location and hence for smaller plant size, than if the industry were geographically concentrated. Three others involve production processes in which scale economies are not pronounced or in which there is a positive advantage in small-scale operation. The remaining two are characterized by small or differentiated markets.

The grouping is as follows:

1. **Locational Influences**

   1A. Factories which process a dispersed raw material

   IB. Products with local markets and relatively high transfer costs.

   IC. Service industries

2. **Process Influences**

   II.A Separable manufacturing operations
IIB. Craft or precision handwork

IIIC. Simple assembly and mixing.

III. Market Influences

IIIA. Differentiated products having low scale economies

IIIB. Industries serving small total markets.

Another competitive advantage is the educational competence of the organisation to continuously develop and improve the performance of the staff. This is due to their training and development. The competitive advantage, however, is in the development and design of the training courses. (Whitehill, 1997, p-622)

Like individuals, firms have reputations. Reputations often summarize a good deal of information about firms and shape the responses of customers, suppliers, and competitors. It is sometimes difficult to disentangle reputation from the firm’s current assets and market position. Reputational assets are best viewed as an intangible competitive advantage that enables firms to achieve various goals in the market. (Teece, Pisano and Shuen, 1997, p-521)
Finally the end products itself brings in competitive advantage for the firm. End products, are the final goods and services produced by the firm by utilizing the competences that it possess. The performance (Price, quality, etc) of a firm’s products relative to its competitors at any point in time will depend upon its competences. (Teece, Pisano and Shuen, 1997, p-516).

Karakaya and Stahl (1989, pp. 80-91) states that competitive advantages possessed by firms act as entry barriers which decreases the likelihood, scope, or speed with which potential competitors can come into the markets. Cost advantage of the incumbents which usually results from economics of scale is one of the most important entry barrier. Product differentiation, brand loyalties by heavy advertising, large financial resources effecting scale economy, investments in research and development which increases technological scale economies are some of the competitive advantages that acts as a barrier for new entrants. Porter (1991, pp95-117) explains that over time, managers can create and sustain competitive advantage by the continous innovation, improvement and upgrading of resources.
Long Term Focus

Several literature on market orientation suggests that the overriding objective of a business is profitability in the long run. (Narver and Slater, 1990, pp.20-35). The definition of marketing implies that to be successful, marketing must maximize profitable sales over the long run. The customers must be satisfied in order for a company to get the repeat business that ordinarily is so vital to success. (Stanton and Futrell, 1987, p-6) Marketing concept is long term oriented, does not think of immediate profits, but long term profit by customer attraction and retention. The purpose of the marketing concept is to help organizations achieve their goals. In the case of business organizations, the major goal is profit. (Kotler, 1986, pp.18-22)

Most studies on small firms have reported positive relationship between long term focus and financial performance. (Schwenk and Shrader, 1993, pp.33-61). If a company prospers in the long run, it must be doing a reasonably good job of satisfying its customer's current social and economic demands. (Stanton and Futrell, 1987, p-15). The unprecedented changes now taking place with regard to interest rates, inflation, international competition, consumer life styles etc. make long
term focus essential for all businesses, large or small. (Kirk and Noonan, 1982, p-1).

To be market oriented, the company must develop a plan for achieving its long-run objectives. There is no one strategy that is optimal for all competitors in an industry. Each company must determine what makes the most sense in the light of its industry position and its objectives, opportunities, and resources. Excellent companies adapt and respond to a continuously changing marketplace through the practice of market oriented strategic planning. They develop and maintain a viable fit between their objectives, resources, and opportunities. Strategic management, implies making choices that best align the organization with environmental demands. Strategic planning for a firm's future is one of the most exciting business concepts in practice today. It is normally an ongoing and detailed formulation of plans showing how well defined objectives can be accomplished in the long run. (Kirk and Noonan, 1982, p-1). Every organization needs to identify what competencies the existing, or target markets will require in the future. What different or additional resources will be required? What additional or different capabilities will be required?
Small business is, in general, more vulnerable to the effects of the environment. Given its limited financial and human resources, it spends more time adjusting to turbulence than being long term focused (Amboise and Marie, 1998, p-227). A study on small firms revealed that fewer than one quarter of the sample firms carried efforts to anticipate sales and profit changes, one fifth of the surveyed firms evidenced a complete absence of any strategic thinking. Instead they focus on short term profitability and sales and ignore market functions such as customer satisfaction that ensure the long term health of an organization (Sexton and Auken, 1982, p-25). The time and energy of most of the small entrepreneur is absorbed almost wholly in routine work. The small business has little scope to concentrate on tasks involving decision making and planning for the growth of the enterprise. Siropolis (1982, p-39) found that financially successful entrepreneurs are more interested in the long term profitability and growth of the firm. The decision making activity of the owner manger is moulded through repeated crises management, focussing on day to day decisions with relatively short time spans. (Sexton and Philip, 1982, p-21). Most small manufacturers are product orientated and they are inclined to concentrate on the design and production of goods at the expense of proper attention to long term growth and profitability. Consequently,
opportunities for expansion, specialization, and diversification may be missed and firms may find themselves trapped in a declining market. (Bolton, 1978, p-113).

Smith and Miner (1983, pp.325-40) identified two types of entrepreneurs, the craftsman entrepreneur and the opportunistic entrepreneur. The craftsman entrepreneur is characterized by narrowness of education and training, low social awareness and involvement, a feeling of incompetence in dealing with the social environment, and a limited time horizon. The opportunistic entrepreneur is characterized by a certain degree of education and training, high social awareness and involvement, confidence in their ability to deal with the social environment, and an orientation towards the future. For long term survival amidst severe competition no business can avoid a long run perspective (Andreson, 1982, pp.15-26). Siropolis (1982, p39) found that financially successful entrepreneur are more interested in the long term profitability and growth of the firm.

Each company must continuously review the level and type of investment needed to stay viable in a given industry. It must do its best to monitor the changing environment so that it does not suddenly become
an obsolete organization. Market oriented firms are very active in the search for and evaluation of new investments. They are very active in anticipating changes in the marketplace and looking for ways to take advantage of these changes. (Jones, 1982, p-18)

Firms with superior systems and structures operate profitably because they have markedly lower costs, or offer markedly higher quality or product performance (Teece, Pisano and Shuen, 1997, p-513). Thus to stay ahead of competitors, firms must not only offer new and superior products, but must do so at prices affordable to consumers. This requires the implementation of new and efficient production technologies and attention to employee productivity (Kotev and Meredith, 1997, p-42).

Low cost products are the only surefire winners (Peters and Waterman, 1992, p-43). Optimum firm which enjoys internal efficiency and scale economy can operate with lowest average cost and compete effectively in the market. (Cherunilam, 1989, pp.176-177). One of the most important things to consider when formulating plans to start a business is the size of the operation. The nature of some types of technology and the organisation of certain business processes require that a company be relatively large to be operated cost-efficiently. It is important for a manager to know how a firm's unit cost of production
will behave as output increases in different size plants before committing resources to a new business. Obviously, if one enters at a scale smaller and less efficient than the least cost sized plant, already established, firms can be expected to have a competitive edge (Peterson.1982,p13). Optimum firm means a firm operating at a particular scale in existing conditions and organizing ability has the lowest average cost of production per unit, when all those costs which must be covered in the long-run are included (Cherunilam, 1989, pp.176-177).

The optimum firm achieves equimarginal returns from all resources or factors of production. It indicates a rational allocation of resources and a combination of inputs to secure maximum profit due to the lowest average cost. The optimum level of small industry organisations is influenced by a) technical production economies, b) managerial economies, c) marketing economies and d) nature, size and stability of demand. Long term investment prospective must aim in internal efficiency and scale economy in the long run so as to remain competitive in the market.

Location is also an important factor determining the ultimate success or failure of a small unit in the long run. Locational decision must be
influenced by long term profitability and ability to operate efficiently, rather than considering the initial cost of investment. Selection of site must be governed by factors like nearness to market and raw material, manufacturing and transportation cost. One study examined the location decisions of fifty electronics firms and found that entrepreneurs of these firms considered factors like initial cost of facilities without considering the long term competitive strength of the firm. (Chagnati and Chagnati, 1983, p-44). The important factors, which should be taken into account in the selection of a site, are (i) availability of raw materials; (ii) availability of skilled and unskilled labour; (iii) nearness to market; (iv) availability of transport facilities. The various factors affecting the economic size of unit may be conflicting in some cases. In such instances certain compromises may have to be made. For instance when the likely demand for the product is not adequate to justify the size of the project, it would be necessary to compromise on the technological efficiency criteria choosing a lower scale of operation, signifying thereby a part of technological efficiency (Desai, 1991, pp. 411-413).

One of the main handicaps of small industrialists being shortage of funds to buy modern machines and tools, they are forced to use old and outmoded machinery which effects both the quality and quantity of their products and the cost efficiency too. Few entrepreneurs go through a
logical process of site selection. Instead, they often permit personal preference to influence their decision on where best to locate. Their meagre resources induce small industrialists to use cheap and inferior type of materials which naturally affects the quality of their finished products (United Nations 1969, p-29). One study examined the location decisions of fifty electronics firms and found that entrepreneurs of these firms considered factors like initial cost of facilities. (Chagnati and Chaganti 1983, p-44).

Industries, where entry is easy because of low technical threshold, is characterized by over crowding of manufacturers and consequently subnormal profits, making it impossible for small firms to grow significantly. Such a situation can be prevented if the small firms have a long term orientation. To be market oriented, the small business must have a long term perspective in the selection of machinery, technology, location, market etc. and adopt a logical process in the selection of these factors, rather than considering immediate savings on investment. ie Long-run investment perspective is implicit in market orientation. (Desai, 1991, pp.410-422).

To find the right location for the plant, entrepreneurs generally should seek to balance three factors: (i) sales revenue (ii) manufacturing costs
the potential market of their venture, the potential costs of meeting
the demands of that market and the potential pitfalls in organizing the
operations of the venture. Siropolitis (1982, p-136) Suggests the
following process for investment decision process (1) identification of
firm's unique resources (2) decision on which markets those resources can
earn the highest profits and (3) decision on whether the profits from those
assets are most effectively utilized. (Teece, Pisano and Shuen 1997,p-574)
suggests the following steps for firms to have a long term perspective (i) identify the firm's unique resources (ii) identify the
markets in which these resources can earn the highest profits and (iii)
find how the profits from those assets can be most effectively utilized.

Profits could go up or down in a particular year for many reasons,
including rising costs, falling prices, major investments, and so on but the ultimate sign of a healthy company is that its customer
satisfaction index is high and keeps rising. Customer satisfaction is the
best indicator of the company's future profits. So all decisions in the
selection of machinery, technology, location, mode of transport, selection of market and marketing mix must have a long term perspective. A
business must view customer satisfaction, market share and profit as
goals to be achieved in the long run. To maximize its long-run profits, a
business must build and maintain a long-run mutually beneficial relationship with the market and continuously create superior value for its target customers. To create continuous superior value for customers, a business must have greater market information, be customer oriented, competitor oriented and interfunctionally coordinated. All components of market orientation are thus interrelated. (Narver and Slater, 1990, pp.20-35)

**Interfunctional Co-ordination**

For an organization to adapt to market needs, market intelligence must be communicated, disseminated, and perhaps even sold to relevant departments and individuals in the organization. Market orientation is not solely the responsibility of a marketing department. It is critical for a variety of departments to be conscious of customer needs and to be responsive to those needs, (Kohli and Jaworski, 1990, p-3)

Marketing is not a separate management function, rather the whole business as seen from the customers point of view. Marketing does not work when it is merely a department. It only works when all employees and departments work together with the twin objective of customer satisfaction and long term profit for the company (Deshpande and Webster, 1986, p-3). Creating value for buyers is much more than a
marketing function; rather, a seller's creation of value for buyers is analogous to a symphony orchestra in which the contribution of each subgroup is tailored and integrated by a conductor with a synergistic effect (Narver and Slater, 1990 p-2).

Integration of a business's entire human and capital resources to create superior value for buyers is the proper focus of the entire business and not merely of a single department (Webster, 1988, p-39).

It is based on environmental analysis, customer and competitor information and comprises the business's coordinated efforts, typically involving more than the marketing department, to create superior value for the buyers, ie market orientation entails 1) one or more departments engaging in activities geared towards developing an understanding of customer's current and future needs and the factors affecting them, 2) sharing of this understanding across departments, and 3) the various departments engaging in activities designed to meet customer needs. In other words, a market orientation refers to the organization wide generation, dissemination, and responsiveness to market intelligence. Therefore, any individual in any function in an organization should potentially contribute to the creation of value for buyers (Narver and Slater, 1990, p-22). To increase its market
orientation, a business must be consistent in adapting all of its systems to be customer and competitor oriented and effective in; coordinating interfunctional efforts to create customer value (Narver and Slater, 1990, p-28).

Enterprise operation involves numerous relationships such as with customers, suppliers, employees, bank managers, consultants, and competitors the nurturing of which is important to enterprise survival and performance. Relationships are built on trust, honesty, loyalty, respect, and responsibility. Owner/managers who desire above-average performance are likely to place greater emphasis on value closely associated with building relationships crucial to their business performance (Kotey and Meredith, 1997, p-45).

Interfunctional coordination refers to the specific aspects of the structure of an organization that facilitate the communication among the organization's different functions(Thomson, 1967, p-29). Interfunctional coordination allows for communication and exchange between the firm's organizational units (Moenaert et al, 1994, pp. 31-45). Horizontal communication both within and between departments serves to coordinate people and departments to facilitate the attainment of overall organizational goals (Kohli and Jaworski, 1990, p-6).
An organization must exchange with not one but several elements, each of which is itself involved in a network of interdependence, with its own domain and task environment (Thompson, 1967, p-29). Productive systems display high interdependency, and that it may not be possible to change one level without changing others (Teece, Pisano and Shuen, 1997, p-519).

Though a market orientation involves the efforts of virtually all departments in an organization, the marketing department typically has a larger role by virtue of its contact with customers and the market. Marketing begins with top management. Only top management can provide the climate, the discipline, and the leadership required for a successful marketing program. A favourable attitude on the part of top management is the key to implement the marketing concept successfully. "Any company is nothing but a marketing organization" (Stanton and Futrell, 1987, p-147).

Coordinated marketing or interfunctional co-ordination means two things. First, the various marketing functions - sales force, advertising, marketing research etc-must be coordinated among themselves. Second, marketing must be well coordinated with the other departments in the company. Marketing does not work when it is merely a
department; it only works when all employees work in a concerted manner for fulfilling customer satisfaction. The manager must draw upon and integrate effectively, as well as adapt as necessary, its entire human and other capital resources in its continuous effort to create superior value for buyers (Kotler, 1986, pp.20-21).

Marketing's interdependencies with other business functions must be systematically incorporated in a business's marketing strategy by the top management. Companies must be able to adapt, integrate and reconfigure internal and external organizational skills and functional competence to match the requirements of a changing environment (Teece, Pisano and Shuen, 1997, p. 515)

If a business rewards every functional area for contributing to creating superior value for customers, self-interest will lead each area to participate fully. In developing effective interfunctional coordination, marketing or any other department must be extremely sensitive and responsive to the perceptions and needs of all other departments in the business. This is complemented by lower unit cost and ability to offer quality products at market prices.
The level of interfunctional coordination of a firm can also influence the ability of the firm to take advantage of a new product to make it successful. Winners in the global market place have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and deploy internal and external competence. Innovative firms scored highly for integrated decision making (Seetharaman 1992, pp. 50-55). Therefore, interfunctional coordination is the mechanism that enables different strategic orientations to work jointly.

Unlike Small firms, large companies usually face two imposing barriers. First, they generally have both multiple layers of administration and cross-functional decision-making groups. Second, their marketing organizations customarily rely on complex arrangements of communications methods and selling channels (Moriarty and Swartz, 1989, p-104).

"Far too many managers have lost sight of the basics, in our opinion: (quick action, service to customers, practical innovation, and the fact that you can't get any of these without virtually everyone's commitment" (Peters and Waterman, 1982, p-17). It is now realised that company
plans need to be flexible and responsive, rather than constrained by inflexibility in order to be market driven (Brown and Rick, 1987, p-41).

Small businesses clearly have the ability to strike fast, while their counterparts in big business sometimes are shackled with bureaucracy and a painfully slow decision-making process (Kirk and Noonan, 1982, p-3).

There is a feeling of emotional involvement, determination and a pride in performance which it was felt, larger firms with their rigidity and bureaucratization could not equal (Bolton, 1978, p-23).

One of the outstanding characteristics of the small firms is the simplicity of its management structure as small firms are almost exclusively under their proprietors control. There is a world of difference between sophisticated structures of management, as seen in large corporations, and the adoption of sound principles of management.

Among the positive advantages in smallness is the flexibility in adapting to the buyer's wants, more personal relations with workers and customers. Flexibility gives the small business a competitive advantage. This attribute, should be highly prized by small entrepreneurs in their effort towards interfunctional co-ordination. The workers in a small
firm can more easily see the relation between what he is doing and the objectives and performance of the firm as a whole. Management is more direct and flexible. Rules can be varied to suit the need of the customer (Chisnall, 1987, p-2).

Miller (1963) noted that managers have greater influence on business strategy in small firms, where the manager is also the owner of the firm. Owner-mangers are powerful enough to override obstacles to the successful realization of their business strategies. They have enormous impact on their enterprises through their power of ownership and face to face contact with employees.

The effectiveness of the overall business strategy depends substantially on how well activities in the various functional areas are integrated to form a pattern (Porter 1991). This pattern defines the firm's business strategy and therefore competitive position within the industry (Mintzberd and Quinn 1991). The owner manager is thus at the center of all enterprise behaviour (Covin 1991). In short, small firms's environment is more suitable for interfunctional co-ordination than in large firms.