THE MARKETING OF SMALL AND MEDIUM ENTERPRISE (SME) PRODUCTS BASED ON FOOD PROCESSING

Assoc. Prof. Dr. Che Mohd Zulkifli Che Omar
Faculty of Management and Economics
Sultan Idris Education University
35900 Tanjong Malim, Perak, Malaysia.
mohd.zulkifli@fpe.upsi.edu.my

Anas, T.
Faculty of Management,
Darul Ridzuan Islamic College
33000, Kuala Kangsar, Perak, Malaysia.
anastajudin@kiperak.edu.my

ABSTRACT

This study aims to examine the constraints and the method of product marketing for Small and Medium Enterprises (SMEs) based on food processing in the district of Manjung. The study was conducted among the operators of food processing SMEs in the district of Manjung, Perak Darul Ridzuan. A total of 30 samples were selected as the research subjects. Mediating variables such as the use of contraceptive devices, the forms of SME problems and marketing methods are also considered in this study. The data derived from the questionnaires were analyzed using the Statistical Package for Social Sciences (SPSS). The study found that the forms of constraints or problems faced by the SMEs in the studied area are of financial problems, marketing problems, management problems and production problems. Meanwhile the marketing method to increase the sale of products is through the wholesale selling. The implication of marketing strategies carried out to the SMEs in the studied area as a whole is that the selling products of operators can be improved.

Keywords: SME, marketing method and food processing.
INTRODUCTION

Small and Medium Enterprises (SMEs) play an important role in the economic development of a country. It is capable of providing jobs and generating output based on locally produced ingredients. In the long term, indirectly SMEs can increase economic growth resulted from the SME export revenue, as experienced by Japan, Thailand and South Korea.

The success of an SME to some extent is influenced by the elements of effective marketing. Marketing and promotion is the basis of any growth of a business. Marketing activities will be able to speed up the exchange process of products or services to money or other benefits. It also can strengthen and prolong the life of the business through modification of products to meet customers' needs. Promotion involves the dissemination of information on the product, product line, brand or company. Promotion is one of the four most important aspects of the mixed marketing besides product management, pricing and distribution.

According to the National SME Development Council in the Census of Establishments and Enterprises in 2005, 96 % of the business establishments in the manufacturing sector were SMEs that contributing 30.7 % of the total manufacturing output, 32.3 % of them were the food and beverage sub-sectors, which recorded the largest contribution among manufacturing production. In the meantime the government, through the Fund for Food (1993) has allocated RM1, 300 million to boost the food production in the country. The government also created a special program, "Malaysia the Truly Asian Kitchen" which was implemented to encourage participation of SMEs in the thriving food industry in and outside the country. According to Zainal Ariffin (1999), the government has given new impetus to the SMEs involved in the processing of food. The Fund for food was increased by RM100 million to total an amount of RM700 million. This figure is expected to increase the production of local food. It will also promote and finance new investments in the industry.

The food processing industry is one of the important sub-industries in the development of the manufacturing sector in the country. The food processing industry has been identified as one of 12 prioritized industries in the Third Industrial Master Plan 3: 2006-2015 (IMP3) and the Third Industrial Master Plan 2 (IMP2). In addition, the industry is able to create jobs, save foreign exchange and create added value in the food industry. The food industry is able to create a strong network between industry sectors in the Malaysian economy. Component of the food industry is one of the largest in Malaysia.

Weaknesses in the intricacies of marketing of products among SMEs are often highlighted by various parties. In fact, this becomes one of the problems in the process of developing and expanding the SMEs. To help overcome this problem, a number of key government agencies directly involve. These include the National Productivity Corporation (NPC), Majlis Amanah Rakyat (MARA), Malaysian Entrepreneur Development Centre (MEDEC), the Malaysian Investment Development Authority (MIDA) and a number of Development Finance Institutions of other institutions (DFIs). These agencies have a high capacity to provide advisory services in terms of marketing of SMEs, especially in food processing. NPC for example offers several courses related to marketing, sales, promotional goods and also export process. These matters are well suited to the needs of SMEs in the country to enhance the marketing. Among other things, these courses touch on effective sales skills, negotiation in sales, managing the sales, identify marketing management, marketing strategies, procedures and documentation for import and export, as well as analysis of the flow of money in sales (Moha Asri, 1999). Despite all the efforts and assistance provided by the various parties, including the government the SME products still fail to penetrate a wider market because these products are only concentrated in the area of production.
Problems in the market and marketing arose due to several factors. The quality of the goods produced is among the leading cause. Most of the goods produced are of inferior quality. Among the causes of this situation include low-quality raw materials, machines and technology, lack of quality control system, low level of skills and expertise among the workers, unattractive design of product and limited capabilities to improve the quality of products. Meanwhile, the marketing problems that exist among the SMEs are also heavily influenced by a number of other things such as lack of customer confidence, transport and delivery, storage and storage area. Extensive competition among SMEs, large firms competition and seasonal demand are also among the serious problems that are often experienced in marketing the SME products (Moha Asri, 1997).

Therefore, a research on the problem and marketing methods used by the SMEs in the District of Manjung, Perak has to be done.

In general this study seeks to identify problems and SME marketing methods used to increase the marketing of SME products in the District of Manjung, Perak. Specifically, this study will focus on the following objectives:

a) Describe the forms of the constraints faced by SMEs in the study area,

b) Identify effective methods for marketing of SME products in the study area,

c) Explain the implications for marketing strategies undertaken by the SMEs in the study area.

LITERATURE REVIEW

In dealing with SME enterprises, producers turn to face many problems. However, the problems faced by small firms are expected to be more serious than large firms. Among the most common problems discussed in the SME are the problems of finance, capital, management, production, skilled labor, marketing, quality, competition, support and other related problems. For example Moha Asri (1997), has made a study on the major problems faced by the SMEs as a whole namely the problem of capital, marketing, management, production, skilled labor and so on. Establishment and Enterprise Census of 2005 shows that various problems faced by business operations include competition from larger companies, unable to obtain a loan, lack of skilled labor, competition from new companies and a lack of support from the Government (Feature Articles: SME Survey by Bank Negara Malaysia, 2005).

In addition, the findings Chamhuri et al. (1995) found that entrepreneurs also face problems in terms of the sales price. This problem exists because of the high cost of the production process, particularly to too small enterprise. Therefore they can not compete with larger players. There are entrepreneurs who have problem with low quality output compared to operators who use portable electric tools. Therefore, their products are not well received. Furthermore, the design and packaging is of said uninteresting.

According to Chee (1985), there are various problems faced by the SME entrepreneurs. Among the main problems faced are the competition for markets in domestic and abroad. For the domestic market, competition comes from the SMEs themselves and also from the operators of large-scale industry from the local and abroad. For the overseas market, Chee (1985) estimates that only 5 percent of SMEs products from the rural that have been able to penetrate in the markets. This situation may be due to lack of information or the high price and low quality.
Chee further pointed out that the other problems faced by SMEs is lower demand for seasonal goods, small market, the implementation of the sales tax by the government, inefficient production and low quality. Low quality products may be associated with the use of raw materials as well as the lack of quality standards for product quality control. In addition, most SMEs also face the problem of working capital.

Chee (1985) criticized the less efficient SMEs and still depend on the traditional organization and production techniques. Resources allocated to SMEs are inadequate and inefficient and lack of organization to coordinate. In addition, financial problems and the level of technology and low labor skills cause the poor quality of SMEs products. This situation could cast doubt on the ability of SMEs among the customers. Mercy (1995) found that SMEs in Malaysia is highly dependent on the middlemen and lack of initiative in finding alternative markets to market the products. Therefore, SMEs are not exposed to the real marketing strategy and experience through direct involvement.

Ragayah and Rahmah (1995) conducted a study on the marketing and the SME chain. In this study, there is an important problem faced by the SMEs that is marketing the products. Low quality causes the producers to face the hassle of getting the market, especially abroad. Although the firm can produce goods according to the desired output, they must also take into account other things such as meeting the promised date of supply and putting a reasonable selling price so that the existing customers continue to buy from them. Other than the problem under control, there are also problems beyond the control of the operator, such as late payments from buyers which would limit the turnover capital and too expensive transportation costs that can lead to high sales prices.

Ragayah and Mercy (1995), states that good marketing strategy is closely related to measures of different marketing channel selection and affordable pricing means. In addition, research, knowledge and experience about pricing, competition, demand and consumer tastes are important. Generally, there are two forms of marketing channels, the direct channel and indirect channel. Through the direct channel, the items will be distributed directly from the producer to the consumer. Meanwhile, the indirect channel involve the middle or intermediate agency before any goods or services reach the hands of consumers.

Another marketing enhancement methods used by operators studied by Wan Liz Ozman and Sulzani (2002) is the sales orientation. It only focuses on the efforts to do large-scale sale and also promote by ongoing basis. The promotion strategy aims to disseminate information on the operators offer. There are four tools or methods of SME products promotion which are advertising, sales promotion, personal selling and publicity.

A study on the method of improving SME marketing has also been done by Nailul Murad and Moha Asri (1998). Most of food products are for the domestic market (90%) and only 10% of the surveyed firms export their products abroad.

Most studies done, only see problems in all industries in general and touch on methods to increase marketing in general and there is no detailed study on the carried out marketing method. Therefore, to get a more convincing view about the marketing methods used by the SMEs to increase their output, a more comprehensive study should be conducted. With that, it is hoped that this study will contribute to the increased understanding of the methods to improve the marketing among the SME operators.
RESEARCH METHODOLOGY

The conducted study was in the form of descriptive studies. The instrument used to collect data was a questionnaire. This questionnaire is divided into four sub-topics related to the Part A (Background of operators), Part B (Background of the firm), Part C (problems in SMEs) and Part D (Methods of marketing). Meanwhile, the choice of priority (ranking) is also used in answering the questionnaire. Here, it can be seen that the choice of 1 indicates a low valuation, while option 2 and 3 show a high valuation of the item presented.

In this study, the researchers selected 30 players through random sampling of 60 SME operators registered with the Business Registration Office and Manjung Municipal Council in the field of food processing in the study area. The selected sample is composed of satay, anchovies, chicken, shrimp, fish, chilli & tomato sauce, bakery and ice producers. In this study the researcher has chosen Manjung District, Perak as the location of the study area. The researchers has chosen this area as it is rich in natural resources that formed the basis of food production by the SMEs such as the marine resource.

Questionnaires were distributed by the researcher to the randomly selected SME operators. The researcher contacted the SME operators to get an appointment and met them personally to seek cooperation for the questionnaires. After the questionnaires were answered, they were collected by the researcher on the same day.

The data obtained from the questionnaire will be analyzed using the SPSS. The researcher applied the quantitative method to describe the findings of the data. Some descriptive analysis methods such as mean, standard deviation, median and mode were used in this study.

MAIN RESEARCH FINDING

This study is a study of the methods used to improve the marketing of SME products in the District of Manjung, Perak. The objective of this study is to find out the problems faced by the SMEs in the study area. This study is an effort to explore the method of improving marketing and knowing how far is the implication of marketing strategies carried out to the SMEs in the study area as a whole.

This study was conducted on 30 SMEs in the District of Manjung, Perak. This study involved SMEs that produce food products in the District of Manjung, Perak such as satay, chicken meat, tomato sauce / chilli, anchovies, bread / cake and ice cube.

Constraints Faced by the SMEs

A lot of difficulties experienced during the operators are trying to get financial aid or funding. Among the major difficulty is the lack of funding for security, followed by no track record of financial problems, insufficient documentation to support the loan application. Apart from that, the long loan processing time of between 3 to 6 months is also one of the main problems.

For those who have obtained loans, the problem faced is the loan repayment. The study found a total of 7 players have trouble repaying the loan. Among the problems identified in this study is that the customer does not pay the debt and declining sales.

There are four main problems faced by the SMEs in the study area such as marketing problems, followed by financial problems, management problems and skilled workforce. Besides, there is also the problem of competition and support and other unapparent problems such as the problem of capital and production problems.
Moreover, the main problem in the marketing of food products encountered by SMEs in overall, is the quality can not meet the market's needs due to the use of manual equipment and delayed payments from buyers, especially government agencies who are often more than 3 months. While too high transportation costs is the next problem arising from the impact of oil prices hike.

Altogether some forms of constraints or difficulties faced by the SMEs in the study area are of marketing problems and financial problem. In terms of the initial capital and development funding, no agencies are willing to finance and the amount needed is too large. Problems in marketing the products is the quality can not meet the market's needs and delayed payments from buyers. All the problems that exist in SMEs are resolved by the SMEs themselves.

The most affecting problems of the operators are marketing, branding and packaging. While the labor problem, designing and managing are of the modest problem for operators and raw material problems are not important for all SMEs in the District of Manjung as raw materials are readily available around this area.

**Methods of Improving the Marketing**

There are several methods used by the operators to solve the problem of production and management. Most operators use their own methods of solving problems of production and management faced by the SME firms because they are found to be very effective. Consulting close friends and relatives is also an option for operators to solve the problem of production and management. While problem solving methods through banks, government agencies and consultants respectively are not very effective in helping entrepreneurs to solve problems.

Many SME operators from the study area seek marketing information to develop SMEs through their friends. The method used by operators to increase the demand for food products is through diversification, discounts, design and attractive packaging. The advertising means used by the operators to promote their products can be seen in the output of the four methods used such as the internet, billboards, brochures and exhibitions.

Payment for sales by most firms is made on credit because this is very important for the development of the market. This is because it is applicable to large-scale buyer. It can save the buyer cash flow and it is able to diversify the use of the goods. For wholesalers, they are concerned about credit payments because they also sell on credit.

Generally, most of the SME operators market their goods on their own (retail) and wholesale their results, either directly to the purchaser or the purchasers themselves come to the operator. There are four main factors that cause the SME operators to face difficulties in marketing their products which are competition, transportation problems, unattractive design and low-quality products.

**Implications of the Marketing Strategy**

Overall, from the results of the study the researchers can identify a number of methods to improve the marketing of SME products in the study area, which is selling at wholesale to retailers so that the cost of warehousing, transportation and packaging can be saved by the SME operators. This corresponds to the major problems which are the marketing and financial problems. Another method to improve the marketing of SME products is through diversification, discounts, attractive design and packaging. In addition, SME operators also advertise their products via the internet, billboards, brochures and exhibition and this method can improve their sales.
The implication of marketing strategies which have been carried out to SMEs in the study area as a whole is that the selling products of operators can be improved. However, most of the SMEs in the District of Manjung are not aware of the existence of government agencies such as MARA, MIDF, MIDA and others who are willing to help the SMEs. Productivity and progress of SMEs receiving support and advice from the agencies are better compared to the other SMEs. The strategy of selling the goods on credit is one good way for the SME operators, but as a result of this strategy there are some negative effects of overburdening or impairing the development of SME customers who often pay late or not pay the debt until it becomes bad debts. This will create problems in the capital turnover.

**RECOMMENDATION**

The study found that, there are various constraints faced by the SMEs in the District of Manjung. Thus, the SME entrepreneurs have to change the traditional way to solve problems to more suitable ways. The Bank Negara Malaysia offers financial advisory services to the SMEs on the information of the various sources of funding, assistance in facilitating the loan application process and advice on financial needs and problems of SMEs.

Most respondents surveyed stated that some of the issues they face. Support from various parties, including the Government in the field of information technology, access to information and training programs are also needed. Problems encountered and recommendations for improvement are shown in Table 1.10.

**Table 1.0**

<table>
<thead>
<tr>
<th>Problems in Business Operations and Suggestions for Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Problem</strong></td>
</tr>
<tr>
<td>Financial</td>
</tr>
<tr>
<td>Marketing</td>
</tr>
<tr>
<td>Management</td>
</tr>
<tr>
<td>Competition</td>
</tr>
<tr>
<td>Support</td>
</tr>
</tbody>
</table>

**Financial Problem**

To tackle the financial problems faced by the SMEs in this study, the researchers suggest a number of steps as they are deemed able to overcome the problem. This study suggests that the financial institution should be able to loosen the conditions of financing for SMEs. The SMEs should not have to provide collateral to obtain financing under RM50 000. Besides that, the processing of funding applications must also be accelerated based on the loan amount. From the results of the study, it is shown that financial institutions take more than 3 months to approve the application. Therefore, the researchers suggest that this period is
reduced to 1 month. In terms of financing repayment, it is appropriate if the financiers give SMEs the flexibility to defer repayment for at least 3 months based on the accrual concept. This to enable SMEs to have adequate capital turnover and not desperate to pay the financing in a short time frame.

In the meantime, to overcome delays debtor explain their huntang especially government agencies, researchers feel the need to review the procedures. Based able to study, government agencies usually takes about 3 months to pay off their debts and this will cause SMEs face problems in obtaining sufficient capital round. Thus, the researchers suggest that this reduced period of 3 months to 1 month.

Marketing Problem

The stakeholders need to provide financial and non-financial support to enhance the SME marketing and promotion capability by helping to cover areas such as direct promotional activities, brand and franchise development efforts as well as linkages with large companies.

SME awareness of marketing opportunities and promotions are available as Market Development Grant (matching grant scheme to cover the cost of SME overseas product promotion), the Industrial Linkage Programme (a program for connecting SMEs with large and multinational companies) and Local Market Development Program (to link Bumiputera ICT companies with government-linked companies) need to be improved.

In addition, there are programs that help SMEs in product branding and packaging. The main program includes the "Grant for Enhancing the Capacity of SME Packaging, Design and Labeling", Brand Promotion Grant and Malaysia’s Best brand for agricultural products. Robust branding, packaging and product design are very important in attracting and retaining customers. It is important to develop the ability to research, organize, and build a brand and a holistic package. This is because the brand, packaging and design are a promise or guarantee to the customer, as well as it describes the competitive advantage of the business enterprise as compared to the competitors.

According to the researchers, the wholesale marketing methods of the operator products to retailers will benefit the SMEs. This method will save the cost of the entrepreneurs. Some of the costs that can be saved are the cost of transportation, warehousing costs, and packaging costs. Promotion should also be done effectively and continue to create strong demand from buyers. If the promotion is not effective, customers are not aware of the existence of products in the market. Therefore, the method chosen should be effective such as the internet, billboards, brochures and exhibitions. Through the use of Internet, it is accessible to the target groups, especially the working people who use the internet channel more for information. Moreover, this method does not require high costs.

Management Problem

Various agencies have been providing advisory services to SMEs, generally in the field of business and financial management, and technical advice.

The Bank Negara Malaysia offers a comprehensive financial advisory services to the SMEs, through the Information, Advice and Services Site (LINK) and specialized units to handle complaints and inquiries of SMEs. Bank Negara Malaysia also helps SMEs to restructure non-performing loans through the Small Debt Resolution Scheme.
SMIDEC offers advisory services to SMEs including through SME Expert Advisory Panel, which aims to provide technical assistance so that SMEs can improve the efficiency and productivity of their technological capabilities. Ministry of Science, Technology and Innovation (MOSTI) provide technical advice in relation to standards and certification, in order to help SMEs to meet the international standards.

Government support for entrepreneurship development in the form of programs that are specially designed to provide the infrastructure to make it easier for entrepreneurs to venture into business, to inculcate the spirit of entrepreneurship and to educate aspiring entrepreneurs. The major programs to develop entrepreneurs are the Vendor Development Programme, the Franchise Development Programme and Groom Big Programme. There are also a number of ICT development programs such as the Exploration Development, Bumiputera ICT Entrepreneur Development Programme and National Incubation Programme.

**Competition Problem**

To facilitate and assist the SMEs to improve their operations and to face intense competition a variety of support programs should be provided, particularly in promoting SME to adopt advanced technology and improve the overall process through the use of specific methods for systems and efficient business processes. To facilitate the SMEs to enhance their technological capabilities, it is suggested that these SMEs to be aware of the programs available, as prepared by the Ministry of International Trade and Industry, which provides a "Grant for Product and Process Improvement" and "Soft Loan for ICT adoption". In addition, the Malaysian Technology Development Corporation manages the Technology Acquisition Fund. Several programs are available to encourage SMEs to engage in research and development activity to improve the quality of their products. Among the program is the SMIDEC Improvement Program, Grant Scheme of Industry Research and Development (administered by MOSTI) and the Commercialisation of R & D (by MTDC).

The government has introduced the Grants for Development and Promotion of Halal Products in 2005, as a result of the increasing opportunities available for these products. This grant, which is administered by SMIDEC, provide assistance to local companies that seek to provide, develop or improve halal products and also in obtaining halal certification and relevant quality standards.

**Stakeholders Support Problem**

National SME Development Blueprint 2008 provides 198 key programs targeted to be implemented with a financial commitment of RM 3.2 billion to help SMEs in all sectors, in the areas of infrastructure support, capacity building and improved access to financing. The SME Bank began operations on October 3, 2005 to promote and expand the contribution of SMEs to the economy. The SME Bank is dedicated to providing financial and non-financial assistance including business advisory needs and providing education and training to the SMEs. The researchers suggest that government agencies such as the SME Bank to monitor and control the actions of SMEs after being given funding or assistance. This is to ensure that the SMEs are really trying to achieve the target and avoid fraud.

Development of competitive SMEs becomes the main focus of the government policy. Undertaken efforts are aimed at strengthening the infrastructure for SME development, building capacity and capability of SMEs and improve their access to financing. National SME Development Council has provided strategic direction of government policy for the development of SMEs to ensure coordination and effectiveness of government programs for SMEs.
All measures on the government as above are able to overcome the problems faced by the SMEs in the study area. Therefore, SMEs should be aware of the current developments of the assistance provided by the authorities. In addition, manufacturers should think and act creatively and innovatively in solving problems that arise.

In the meantime, support from the local communities should also be enhanced. Researchers feel that the "Buy Made in Malaysia Goods Campaign" should be reignited. This is important to give a good perception of SME products.

CONCLUSION

In conclusion, it can be said that the problems faced in the District of Manjung can be overcome by operators’ own efforts or getting help from the government organizations who want to help the SMEs. Marketing methods used in the study is the best method for the SMEs.

It is hoped that this study will act as a guide to such studies to be conducted by other researchers. Other aspects such as marketing methods in different locations or study the factors that influence the problems faced in the area can be done to increase the collection and complement the research on this topic.
REFERENCES


