# Developing a Marketing Framework for Micro and Small Enterprises in Kenya

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*Abstract*

*The fact that thirteen years after the formulation of Sessional Paper No. 2 of 1992, the marketing problem of micro and small enterprises (MSEs) still persists implies that the Government is still grappling with market failures that characterize the sector. This is evidence that institutional failure remains one of the most critical hindrances to marketing for MSEs. This has been manifested in inappropriate policy design, weak implementation framework and failure to institute and effectively monitor policy implementation. In the past, the policy interventions failed to address specific needs of the target groups. The lack of coherent monitoring and evaluation stifled any efforts to check progress during policy implementation, identify policy gaps and take corrective action. It has not been able to develop a feedback mechanism and assess the impact. This calls for newer approaches to the marketing problem for MSEs. This study seeks to develop an understanding of the current framework of marketing for MSEs in Kenya. Thereafter, the study develops a model on the basis of case study evidence and best practices. This model proposes a stronger institutional framework with bi-directional feedback loops to facilitate the planning, implementation, coordination and impact assessment of marketing activities within the MSEs, which would enhance networking as well as access to information. This framework creates space for collaborative arrangements between the implementing organizations and other stakeholders as well as stronger linkages between established formal marketing institutions and MSEs. Starting from the observation that the MSE is vast and differentiated with the various enterprise types having hierarchical needs, the framework proposes size-specific interventions.*

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# 1. Background

## 1.1 The study context

This study relates to one of the components of a three-year USAID-supported project on "Enhanced Policy Formulation and Implementation for Micro and Small Enterprises - MSEs" as proposed and implemented by KIPPRA (2003). The ultimate aim of the project is to increase the level of adoption of policy recommendations and, therefore, narrow the gap between policy formulation and implementation. The three components of the project are: (1) Capacity Building and Training; (2) Coordination, Monitoring and Evaluation; and (3) Empowerment of Sectoral MSE organizations.

In the third component, KIPPRA proposed to develop a strategy to empower sectoral MSE organizations by designing a programme that would enhance their access to workspaces, marketing and technology. This would be achieved by; (a) conducting a capacity needs assessment for sectoral MSE organizations, (b) undertaking a situation analysis on workspaces, marketing and technology, and (c) developing appropriate models for adoption to improve institutional capacities.

According to the project design, the implementation of activity (c) would draw from the outputs under (a) and (b) above, and would involve two stages. In the first stage, theoretical models on workspaces, marketing and technology would be built drawing from secondary sources. This is based on the reasoning that undertaking the situation analyses as well as designing models on workspaces, marketing and technology needed a thorough understanding of theory, policy and best practices. Such an understanding would guide the construction of survey tools and provide the theoretical basis for the models. At the second stage, the theoretical models would be field-tested to yield empirical models that would be modified in line with comments generated from stakeholders and KIPPRA staff. Empirical models would be adopted by MSE associations to lobby for improved implementation of policies to access workspaces, technology and marketing services.

Given the above reasoning, three background studies, relying heavily on documentary analysis, would be undertaken. These are:

(a) "Towards Technology Models for MSEs in Kenya: Common Principles and Best Practices",

(b) "Misallocation of Workspaces for MSEs in Kenya: Some Lessons and Models", and

(c) "Developing a Marketing Framework for MSEs in Kenya".

This paper is one of the three background studies. It has been designed to package the theory, policy and best practices in the area of marketing and, thereafter, develop a model or models that could be adopted by MSE associations for their use.

## 1.2 Study motivation

In Kenya, the MSE sector is considered as one of the major contributors to the economy by providing income and employment to a significant proportion of the population. According to the Economic Survey 2004, employment within the MSE sector increased from 4.2 million persons in 2000 to 5.5 million persons in 2003 accounting for 75.3 percent of the total persons engaged in 2003. The sector contributes up to 18.4 percent of the country's Gross Domestic Product (CBS, K-REP and ICEG, 1999). The MSE sector should, therefore, not only be seen as a provider of goods and services, but also as a driver of competition and innovation, enhancing the enterprise culture which is necessary for private sector development and industrialization (Government of Kenya, 2005).

Poor access to markets and lack of market information are some of the most critical constraints to the growth and competitiveness of MSEs in Kenya. Overall, aggregate demand is low, markets are saturated due to dumping and overproduction and, in most cases, the markets do not function well due to information failure, high transaction costs and competition from cheap imported goods. In fact, the "market constraint' has been identified as the principal factor inhibiting their growth through "highly competitive markets" for undifferentiated products, "too few customers", and "low margins/profitability" (Mikkelsen, 1999). MSEs face difficulties in marketing their products due to lack of information on markets and marketing skills, poor and inconsistent quality products due to low level technology, unattractive packaging, lack of knowledge to explore niche markets, and lack of resources to advertise and promote their products (APEC, 2002).

For most MSEs, poor market research leads to a discrepancy between the supply and demand of products leading to over supply.[1] Mbugua (1999) attributes this problem to low technological sophistication and lack of responsiveness to market trends. He advocates increased assistance to MSEs to come up with effective marketing and sales channels and techniques if they are to grow. Failure to respond to market demand with the desired goods in the appropriate time takes business away from MSEs to more established firms that are better placed to read market trends hence losses in market share for the concerned MSEs (Mullei and Bokea, 1999).

Policy makers in Kenya have sought to address the issue of marketing and markets for MSEs as one requiring policy attention and have proceeded to suggest a number of policy measures in past policy documents. An example is *Sessional Paper No. 2 of 1992 on Small Enterprise and Jua Kali Development in Kenya*, which attempted to provide policy solutions to the problem. The fact that seven years later the baseline survey still listed it as a key problem was indicative not only of its significance but also of the failure to implement the policies that were previously highlighted. The paper devoted a lot of space

1 This is characterized by too many enterprises producing too many similar goods leading to dead stock and business stagnation (Mbugua, 1999).

to addressing the problem of markets and marketing and how they influenced the performance of MSEs. It correctly diagnosed the need for market expansion through such measures as increased linkages between the large and small enterprises; exploitation of export opportunities; and the entry of MSEs into the service sector. These measures were key to resolving the problems that had been highlighted. The case for government support for MSEs was based not only on their primary role to promote growth in incomes and employment, but also because there were significant market failures that prevented provision of these services. Government, therefore, saw it as part and parcel of its duty to promote these enterprises.

In as far as marketing and access to markets was concerned, the government sought to, inter alia, address the problems of:

- Information asymmetry by directing government officials at the district level to disseminate market information.
- Lack of linkages between large and smaller firms by providing tax incentives to large firms to encourage them to increase inter-industrial linkages and by supporting increased level of sub-contracting between large and small firms.
- Financial support services and improved access to credit to enable MSEs to expand their businesses.
- Smaller size of markets by undertaking promotional activities geared towards the expansion of supplier and consumer markets in order to enhance the production capacities of MSEs.
- Creating a conducive environment for the creation and growth of marketing channels for MSE exports by formulating a national export policy for MSEs products, researching the characteristics of overseas consumer markets, and providing specialized technical support and training to MSE exporters.

- Lack of coordination in government ministries charged with supporting the sector by delegating specific duties to specific Ministries.

The Ministry of Commerce was charged with the following duties: enhancing the marketing skill of MSEs by analysing the support provided to MSEs by government and private sector bodies; facilitating buyer and seller forums; ensuring that existing export promotion programmes were able to address the export problems of MSEs; formulating, in conjunction with the Investment Promotion Council, the National Export Policy for MSE products; and using MSE associations to undertake the provision of marketing outlets for the products of their members.

Most recently, *Sessional Paper No.2 of 2005 on Development of MSEs for Wealth and Employment Creation for Poverty Reduction* has recognized the marketing constraints faced by the sector as:

- Lack of access to information on the existing market opportunities and in exports.
- Need to incorporate MSEs in government procurement and sub-contracting between large firms and MSEs to promote them.
- Effects of dumping and low quality products on MSE marketing.
- Poor quality products and poor product design and differentiation.
- Lack of promotional activities, both locally and internationally.
- Lack of market structures and sites for display and marketing of MSE products.
- Poor access to financial services.
- Weak business linkages.

In this regard, the Sessional Paper spelt out policies, which would enhance MSE marketing, among them the provision of marketing information through trade information centres, promotion of MSE products through

Export Promotion Council internationally and locally through advertising and encouraging Kenyans to buy Kenyan products; strengthening dumping and countervailing measures, and provision of temporary marketing premises and spaces in parks and public places through the local government. Further, the government will allocate 25 percent of its procurement needs to the sector and encourage business-to-business linkages through sub-contracting between large firms and the MSEs. The Government also strives to undertake financial support services by establishing a Micro Finance Trust Fund from which MFIs can borrow for onward lending to the MSEs at affordable interest rates.

What is evident from the foregoing is that the government was and is still trying to grapple with the market failures that characterize the MSE sector and make it difficult for them to operate. In addition to this, the government was taking issue with the lack of productivity growth of the sector despite the fact that it had been recognized as the source of future employment opportunities in the country. It was, therefore, necessary that the government undertake systematic interventions in areas that would spur the highest growth in the sector, of which marketing is one. Despite these policies, market access has remained a daunting problem for the sector's growth–evidence enough that the proposed policies in the sessional papers were/are either not appropriate or (if appropriate) were/are not implementable.

## 1.3 Study objectives and approach

Despite numerous policy interventions in the past, recent evidence still points to the lack of access to markets as one of the key constraints to the growth and competitiveness of MSEs in Kenya. This indicates that the traditional approach to the provision of marketing interventions within the sector has been (and is still) inadequate and ineffective. This calls for newer models to the marketing problem for MSEs in the country.

Given the foregoing, this study has two broad objectives. First, it seeks to develop an understanding of the current model of marketing for MSEs in Kenya, with a view to identifying the inherent strengths and limitations. This objective is achieved by undertaking documentary analysis of marketing theory as well as policy, legal and regulatory frameworks, and empirical evidence. Such analyses broaden our understanding of the key players, the marketing incentives, strategies and the legal and regulatory framework. Second, the study would develop a marketing framework on the basis of case study evidence and best practices.

## 1.4 Study scope

*Marketing*

In this study, the general definition of a market is adopted, which envisions a coming together of buyers and sellers in an environment where exchanges occur (Dirks, 1998). As such, marketing can be defined as the process involving and facilitating the selling of a product or service. It can be a simple intermediation between producer(s) and buyer(s), but it can also be a very comprehensive set of services (Mikkelsen, 2001) or the process of creating and delivering desired goods and services to customers. Thus, this study will consider marketing to encompass the following:

- Investigation and research on consumers and markets,
- A marketing strategy "to sell the right product at the right price in the right place through the right promotion", and additional services, such as quality control, credit, technical assistance, product development, and
- All activities associated with winning and retaining loyal customers.

Marketing encompasses more than the four Ps – product, price, place and promotion – but must be a combination of all of them to produce the right product at the right price in the right place. The secret to successful marketing is to understand what the target customers needs, demands and wants before the competitors can; to offer them the products and services that will satisfy those needs, demands and wants, and to provide customers with service, convenience and value so that they will keep coming back.

Majority of MSEs sell their products directly to buyers in local markets, but going beyond that direct sale, an intermediary is needed. Depending on the market and the product, there can be few or many intermediaries involved, wholesalers, distributors, retailers, exporters and importers, and sales representatives securing sales to larger and more profitable markets. MSEs can successfully penetrate national or international markets and become sustainable if they pay attention to changes in a dynamic market and become cost effective. Markets, therefore, represent powerful institutional structures influencing MSE operations and are governed by a variety of social, cultural and political processes in addition to "natural" economic laws of supply and demand (Aln, 2001).

***Profile of Kenyan MSEs***

Generally, MSEs in Kenya are defined using employment (paid and unpaid workers) as the basis. Micro-enterprises have no more than 10 employees, while small enterprises have 11-50 employees (CBS, K-REP and ICEG, 1999). Thus, this study adopts an MSE definition that encompasses both formal and informal enterprises, classified into on-farm and non-farm categories, employing 1-50 employees (Government of Kenya, 2005).

Although there is limited research and lack of consensus on the profile of MSEs in Kenya, anecdotal evidence suggests that MSEs are a heterogeneous group. As such, they are differentiated in terms of capacity needs, types of products, access to resources, growth-orientation, previous business experience and demographic profile (Stevenson and St-Onge, 2005).

MSEs in Kenya can, therefore, be classified into two distinct categories based on these characteristics. The first segment is that of micro-enterprises (1-10 employees). These are often unregistered and in the informal economy. They choose or are forced to stay informal due to harsh legal and regulatory environment. They are characterized by low levels of education, lack of entrepreneurial skills, poor access to credit, lack of information on markets and market opportunities, and low profits. Their enterprises have limited potential for growth, as they operate as hawkers or from little sheds and stalls.

The second segment is comprised of small enterprises with 11-50 employees. Their businesses are generally registered and may operate from legitimate business premises. Although they are likely to be able to access business development services (BDS), they are still constrained by access to financing (though most cannot obtain credit due to collateral constraints), access to markets, and access to crucial market information. Majority of them have a good potential for growth. In this segment, there are also relatively well-established enterprises that lie at the upper end of the size spectrum. Though relatively few, such enterprises are growth oriented, have access to finances and may not have constraints related to collateral. They are, however, faced by competition from people producing similar products and lack of information on export markets and trade fairs. They also need information about new technologies, linkages with international markets and certain specialized services such as business counselling services, financial advice services, and network services.

From the above analysis, each segment has different marketing needs from the other, depending on their activity, capital base, capacity and scope for growth.

### *Marketing needs of MSEs*

Table 1 summarizes the various gaps and needs of MSEs based on the definition of MSEs discussed above.

**Table 1: Differentiated marketing gaps and needs of MSEs**

| Segments | Gaps | Marketing needs | Ancillary needs |
|---|---|---|---|
| Micro (1- 10 workers) | • Lack of market information and business ideas<br>• Poor access to physical markets and market premises<br>• Stiff competition from other producers of similar products<br>• Poor linkages with larger enterprises<br>• Poor access to public procurement<br>• Weak advertising and promotional capacities<br>• Saturated markets - very stiff competition from similar enterprises<br>• Weak marketing support institutions | • Market spaces and stalls, designated seasonal market areas<br>• Enhanced market information<br>• Market information and BDS support services<br>• Preferential sub-contracting policies and strategies<br>• Linkages with government procurement (small contracts)<br>• Linkages with regional markets<br>• Trade fairs and expos (mainly local)<br>• Enhanced coordination and networking of market support institutions | • Sanitation and water services<br>• Infrastructure[2]<br>• Improved incentives for credit–no requirement for collateral<br>• Need for BDS support services<br>• Enabling environment: review of legal and regulatory environment, tax and licensing issues |
| Small (11-50 workers) | • Lack of market information<br>• Weak capacities for market research and analysis<br>• Narrow product diversity<br>• Competition from larger enterprises (medium and large)<br>• Poor linkages with export markets<br>• Poor linkages with government procurement services<br>• Weak capacity for e-commerce | • Access to market information<br>• Diversity of products<br>• Linkages with government procurement (larger contracts)<br>• Trade fairs and expos (regional and international)<br>• Sub-contracting and franchises from larger firms<br>• Identifying export agents<br>• Enhancing market research capacity.<br>• Enhanced capacity for e-commerce | • Market premises<br>• Serviced market sheds<br>• Land<br>• Infrastructure<br>• Training, technology and BDS services<br>• Enabling business environment |

*Sources: Government of Kenya (1992; 2005), CBS, ICEG, K-REP (1999) and Stevenson & St-Onge (2005)*

2 This includes electricity, sanitation and sewerage, water supply, storage facilities, transport system, ICT services and so on.

## 2. Marketing Theories

This section reviews seven marketing theories with a view to understanding how they relate to MSE marketing.

### 2.1 Marketing orientation model

Marketing orientation holds that the key to achieving organisational goals consists of being more effective than competitors in integrating marketing activities towards determining the needs and wants of target markets (Kotler, 1997). Conventional marketing wisdom, therefore, holds that a market orientation provides the firm with a better understanding of its customers, competitors and environment, which subsequently leads to superior firm performance.

**Figure 1: Illustration of the market orientation model**

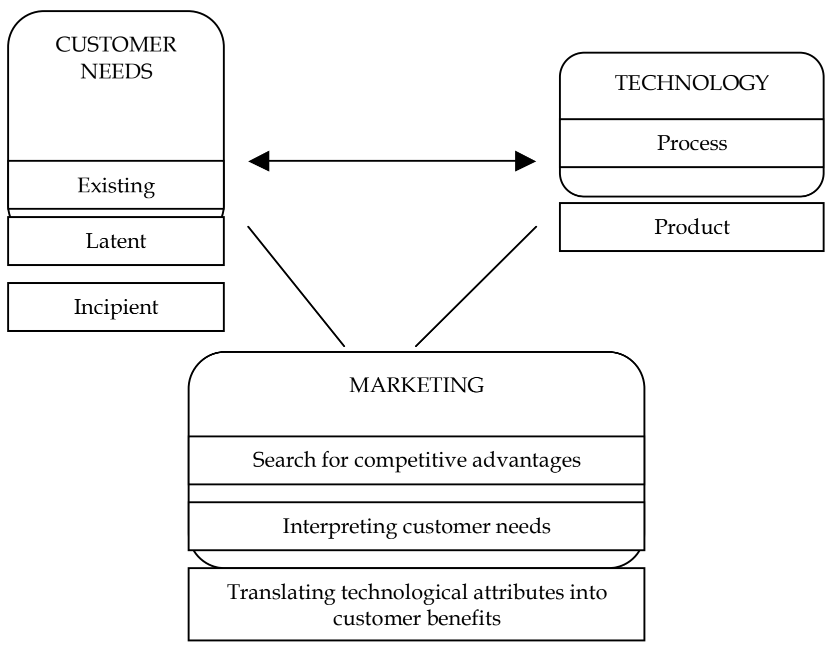
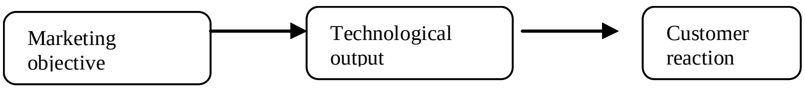


Figure 1 explains the marketing model as derived from understanding customer needs, which are then translated into a product by a process that involves the use of technology. The double head arrow suggests that the process could begin at any one of the three points, progressing to either of the remaining two points. At that juncture, it may cycle back to the point of origin or proceed to the third area.

The *product orientation*[3] process begins with attention directed at the product; i.e. the possibilities for the application of technology. These technological outcomes are then turned over to the marketing department, which develops plans for marketing the product. Customers then react to the product.


In *selling orientation*,[4] the starting point is the establishment of marketing objectives, which include sales volume, market coverage, market share, and the like in this case. These profit and revenue objectives are then converted to sales goals for specific products and production schedules for those products. Finally, customers react favourably or not favourably to the company's offerings in which case sales goals are achieved, or start showing up at executive search firms.




In all the above models, it is evident that for a firm to effectively market its product, information concerning the target markets is essential. Therefore, issues of market research and consumer analysis are important for firms to meet their customer's needs and wants, while at the same time remaining competitive and responding to market demands.

3 http://www.sbaer.uca.edu/research/mma/1997/PDF/03.pdf

4 http://www.sbaer.uca.edu/research/mma/1997/PDF/03.pdf

Given the foregoing, market orientation facilitates the collection and use of market information, and focuses on the coordination of resources to deliver superior customer value (Slater and Narver, 1994). The veracity of this logic is tested in empirical studies, which hypothesize that market oriented firms perform better than their internally focused rivals on financial measures such as profit, relative profits and returns on investment or assets, and non-financial measures such as new product success and innovation. Empirical results generally confirm a positive relationship with measures of performance.

Sabana (1999) tested the marketing orientation model for Kenya using a sample of about 300 MSEs in Nairobi. According to the original market orientation model as applied to large firms in US, three behavioural components (customer orientation, competitor orientation and inter functional coordination) and two decision criteria (long-term focus and the profit objective) were the basis for market orientation. However, to make the model applicable to small enterprises, additional variables were added to the framework. These include human resources management, differentiation-based competitive advantage and low cost-based competitive advantage.

Findings from the Sabana (1999) study indicate that only 43 percent of the respondents conducted market research and used the information to improve their products. Most of the respondents (at least 65%) had some form of promotional activities using signposts or discounts and only 13 percent used media for promotion. Analysis of marketing orientation scores showed that none of the respondents scored more than 600 points while the majority (212) respondents scored between 200 and 300 points, reflecting low levels of marketing orientation.[5] The study concluded that whereas marketing orientation has a role to play in the growth of small

5 Scores below 200 represent very low levels of market orientation ,while the highest possible score was 1,000 points.

firms, inter-functional coordination, profit emphasis and human resource management policy variables needed to be modified in order for the framework to fit within the Kenyan MSE sector.

## 2.2 Functionalist approach to marketing

The functionalist approach was advanced by Wroe Alderson in 1965 (Dirks, 1998) to provide insight into the dynamics and mechanism of marketing. Alderson identified two distinct functions that interact in heterogeneous markets, such that the marketing process starts with "conglomerate resources in their natural state", and concludes with "meaningful assortments in the hands of consumers". Thus, this school focuses on the functions that are needed to get different kinds of goods from the producer to the consumer (Stoelhorst and Raaij, 2002). Marketing is defined as the placing of those assortments. In the case of perfectly heterogeneous markets, the job of marketing is to ensure that each segment of demand can be satisfied by a single segment of supply.

In this framework, because intra-industry demand is significantly heterogeneous, different market offerings are required for different market segments in the same industry (Kovatcheva and Kozerawska, undated). The organized behaviour systems are the household and the firm. Households are basically consumers, while firms are producing entities. Households have desires of assortments that are heterogeneous, requiring heterogeneous market interventions in the form of heterogeneous supply. Such interventions are met via competitive firms that engage strategic innovation in marketing. Dynamism in the market would create room for newer and heterogeneous consumer demands that require entry of new and heterogeneous production that would be premised on competitive synergy.

## 2.3 Neoclassical paradigm

This paradigm is based on the concept of perfect competition. Perfect competition is guided by several assumptions, including perfect and costless information, no transaction cost, no public goods, no economies of scale and scope, perfect (or strong form) rationality and that firms maximize profit. Given these assumptions, all players in the perfect market will seek to maximize their gain in all exchanges and, in the long term, the market will tend towards an equilibrium in which returns will equal total costs of production. Consumer demand and producer supply are both homogenous such that the market price acts as the "invisible hand" that equilibrates the market. In the neoclassical thesis, consumer sovereignty is critical in allocating production and determining the associated cost.

At the theoretical level, the theory is attractive, but in practice, the model is problematic. Consumers may lack the resources to enter the market, access distribution, acquire complete information, and lack the time to shop, transact and consume. They may be limited in terms of comparing and figuring out the various offerings. Similarly, production is most likely to correspond to the needs of the consumers with the most monetary resources.

In the absence of sophisticated legal and contractual structures, competition law and regulation, MSEs operating in these markets suffer from high transaction costs, monopoly distortions (due to limited choices of buyers or suppliers), information failure, mistrust, uncertainty and risk aversion. Such market failures reduce responsiveness to changing demand, and discourage investment, locking MSEs into unrewarding activities that create bottlenecks, and sometimes facilitate outright exploitation. In this regard, it is of utmost importance to develop a marketing strategy incorporating support services to MSEs by creating an enabling environment for MSEs and have a legal and regulatory environment that is conducive for their survival and growth, as well as offering support services that ensure market access and product improvement.

A recent survey of street vending in the City of Nairobi reported that about 85 percent faced very severe competition from like businesses (NCBDA, 2004). However, it is important to note that competition in the MSE sector is not only between MSEs that are engaged in the same line of business but also between the MSEs and the relatively larger businesses. The latter is what concerns MSEs more than competition from the larger firms because they serve different market segments and target clients. The target clients for MSEs are low-end income earners who invest in consumption goods/services than making long-term capital investments. Competition is most severe for MSEs when they "discover" a certain trade and tend to flood it albeit in the same location causing over saturation of their products in the markets.

## 2.4 Evolutionary systems change theory

The evolutionary systems change theory has developed in response to the contemporaneous nature of the market place–defined by highly heterogeneous demand, complex business organizations, and a constantly evolving market environment (Dirks, 1998). The theory argues that the ability of a firm to survive and succeed depends upon its ability to seek and respond to the needs of market niches. Since market systems are dynamic, changing continually in response to evolving needs and the behaviour of competitors, there is a tendency for the market system to be in a continuous shift towards disequilibrium. Where the neoclassical model saw the market tending towards equilibrium, the role of the entrepreneur in the evolutionary systems model is seen as that of purposefully disrupting equilibrating forces by creating new alternatives for consumers and constraining opportunities for competitors (Dirks, 1998). Such a market will shift until it is transformed into a new market with new features. Firms that stay afloat of the waves and storms of competition are those that are able to adjust to the new environment. Thus, for their evolutionary survival, dynamic firms undergo "organizational learning" to manage their own adaptation to the changes.

Ideally, Schumpeter's creative destruction thesis fits neatly into the evolutionary systems framework. The creative destruction paradigm views dynamic firms as those that have developed capacities to produce new combinations in the form of new products and techniques of production and new markets, explore new sources of raw material and rearrange markets (Ferrand, 1998; Ahn, 2001). The harsh forces of competition imply that successful firms are those that weed out others (unsuccessful firms). Eventually, the market principle is one of *creative destruction*, that is, firms that "*create*" and exploit knowledge "*destroy*" their competitors.

What do we learn from the evolution systems theory and the creative destruction thesis when dealing with MSEs? Locally, the key lesson is that when competing in domestic markets with other producers that offer the same products, the challenge is to find a competitive advantage through little improvements, either in quality, price, service or to identify ways to complement existing products with additional services. When competing in international markets, there is a greater need to identify and develop competitive advantages to succeed by providing a special feature in the products or service or through subcontracting for specialized production. MSEs need to answer the following questions in order to become competitive: What are the advantages/weaknesses of the competition? What are our own advantages/weaknesses? Can you beat competition or join them? From a policy perspective, competitiveness of MSEs can be enhanced by maintaining high quality standards, charging a competitive price, selecting strategic market sites, promoting products/services, and identifying niche markets.

In another study by Oketch *et al* (2002), the main reason for diversification of products by firms was in response to the changing market conditions.

Many respondents revealed that their market was declining due to increasing competition and decreased demand. Therefore, as the demand for the products fluctuated, firms responded by diversifying products and activities to capture the emerging markets with less competition. Firm competitiveness was also an important factor in determining the market destination of the products. In order to curve a niche in the market and establish their competitiveness, firms located where there was adequate demand for their products. Firms also accessed other markets outside their localities as long as there was adequate demand for their products in those markets.

## 2.5 Resource-advantage theory

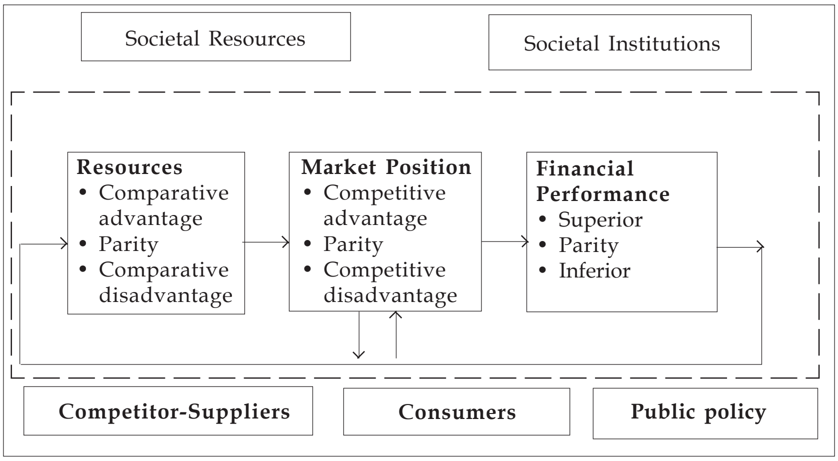
Recent advances of marketing thought have impacted strategic thinking (Auken, 2001). Today, more attention is focused on two factors: resources and collaborative relationships as the key drivers of financial success. Given this radical shift, the assumptions of the resource advantage (R-A) model are the complete opposite of the assumptions of the neoclassical model. In the former, demand is heterogeneous, highly segmented and constantly evolving (Dirks, 1998). There is information asymmetry and information has a cost (in terms of time and money). The maximization of producer and consumer exchanges is constrained by personal, social and legal influences. The firms involved in production own both tangible and intangible core competencies and capacities of a higher order that are not widely distributed. These resources imbue the firm with comparative advantage over other producers. Managers of the firm will be charged with the role of ensuring strategic competitive advantage by use of imitation, substitution, innovation or acquisition of unique resources to neutralize advantaged producers.

According to this theory, firms are unique entities with a unique mix of either acquired or developed resources. A comparative advantage in resources implies that the firm can, in relation to competitors, either produce outputs of superior value or produce at lower costs, by utilizing its competencies. Given the characteristic heterogeneity and immobility of resources, firms can distinguish themselves by the extent to which they can provide a market offering of value to a market segment(s) in both efficient and effective terms (Morgan and Hunt, 2002). With the benefit of gaining comparative advantage in resources, firms can then attempt to secure market place positions of competitive advantage, which can result in superior financial performance. The advantaged firms will remain in such position as long as they (i) develop proactive innovation practices, (ii) sustain investment in the resources producing competitive advantage.

Figure 2 describes the R-A theory. Competition in the framework is defined as a dis-equilibrating process characterized by constant struggles for competitive advantages. The nature of competition is influenced by five environmental factors: (1) the societal resources, (2) the societal institutions, (3) actions of competitors and suppliers, (4) behaviours of consumers, and (5) public policy.

According to Auken (2001), resources that feed the resource advantage theory of competition include financial (venture capital, cash and securities, and borrowing capacity), legal (patents, contracts and licences), physical (geographic coverage of markets, plants and equipment, access to raw materials), human (selling skills, visionary leadership, management skills). Others include technological (computer aided design, unique manufacturing processes, information systems), organizational (corporate culture and climate, valued brands, processes for organizational monitoring and quality control systems), relational (loyal patrons, committed partners – employees, suppliers, intermediate customers), global alliances, and informational (knowledge of the unique needs and requirements of segments of customers and the strengths and weaknesses of competitors).

**Figure 2: A schematic view of the resource advantage theory of competition**




Read: Competition is the disequilibrating, on-going process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a market place position of competitive advantage and, thereby, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance signaling relative market position, which in turn signals relative resources.

*Source: Hunt and Morgan (1996) cited in Auken (2001)*

## 2.6 Relationship marketing theory

As the society moves towards the post-industrial stage, the trend of establishing ongoing business relationships is gaining wider acceptance. Similarly, customers are increasingly looking for suppliers who provide value not only in terms of acceptable prices and an attractive range, but also in terms of relationship value. This approach has come to be known as relationship marketing (hereafter abbreviated as R-M), defined as establishing, developing and maintaining successful relational exchanges (Morgan and Hunt, 1994; cited in Khripkova, 2001). It typifies collaborative relationships, networks and processes, encompassing horizontal and vertical stakeholder relationships in a collaborative effort to improve customer value (Colwell and Hogart-Scott, 2003). The concept of R-M is based on the idea that it costs more to attract a new customer than to keep a returning one (Dirks, 1998). In R-M, new and mutual value is created between a supplier and individual customer. When this happens, novelty and mutuality are deepened, extending and prolonging relationships, further creating more opportunities for customer and supplier to benefit one another. Evidence suggests that the cost of retaining an existing customer is only about 10 percent of the cost of acquiring a new customer.[6] Obviously, in a business sense, it is logical and strategic to focus on existing customers. Customer satisfaction and thereby loyalty will be improved if more value is added to the core product or service (Rees and Gardner, undated).

Most of the retention strategies build barriers to customer switching. This includes product bundling (that is, combining several products or services into one "package" and offering them at a single price), cross selling (selling related products to current customers), cross promotions (giving discounts or other promotional incentives to purchasers of related products), loyalty programmes (giving incentive for frequent purchases), increasing switching costs (adding termination costs, such as mortgage termination fees) and integrating computer systems of multiple organizations (primarily in industrial marketing). In Kenya, very little is known on the extent to which MSEs are able to retain their clients—making this an active area of scientific inquiry. However, in terms of ethnic networks, membership in ethnic networks seemed to play a primary role than filling in an application for allocation of a kiosk (Macharia, 1988). It is on the basis of the information received from an informal source that determined the application for a kiosk in a formal way or the acquisition of open spaces outside the industries in industrial area.

6 See <http://en.wikipedia.org/wiki/Relationship_marketing.>

## 2.7 Relevance of the theories to the marketing framework

In Sections 2.1 to 2.6, the study has reviewed theories that help in the understanding of the role and dynamics of the marketing function at the general level. In this section, the theoretical analysis is summarized and some lessons from each model that have relevance for a marketing framework for MSEs are distilled, which is the key subject of this paper. This is presented in Table 2.

**Table 2: Extant theories informing the marketing framework for MSEs**

| Theory | Key arguments | Implications for MSE marketing framework |
|---|---|---|
| Market orientation model | Market orientation in terms of customer needs, and product configurations are key in enhancing competitiveness | Framework should assist MSEs to understand their competitive advantages, in interpreting customer needs and in translating technological attributes into customer benefits |
| Functionalist approach | Understanding the behaviour of organised behaviour systems is key in understanding market dynamics | The framework should assign specific roles to the key organizations and specify the networking relations across them |
| Neoclassical paradigm | Competition generates maximum utility, general equilibrium and efficiency in the social and private spheres. Efficiency seeking competition is pro-social whereas effectiveness seeking competition leads to monopolistic behaviour, waste of resources and therefore anti-social | The framework should incorporate some degree of efficiency seeking competition (as this yields socially efficient outcomes) and some degree of effectiveness seeking monopoly (as this may be more profitable to businesses). Framework should create an enabling environment for MSEs, and offer support services that ensure market access and product improvement |

| | | |
|---|---|---|
| Evolution systems change | • Success reinforces incremental improvements and proliferation of routines as source of inertia (e.g. sunk costs, commitments, social structures)<br>• Variation in performance results from changes in the environment and organization ability to adapt through learning | • The framework should overcome the preference for improvement of prior and commensurate skills that result in incremental developments. Locally, MSEs need support to find a competitive advantage through little improvements in quality, price and service. Externally, there is need to identify and develop competitive advantages to succeed by providing a special feature in the products or service or through subcontracting for specialized production<br>• The framework should take into account single and multi-loop learning |
| Resource-advantage | Idiosyncratic resources are the basis of sustained competitiveness; the causal ambiguity of evaluating own and competitive competencies is the source of optimal performance | The framework should maximize unique core competency, correct causal ambiguity in judging own and competitor's core competencies |
| Relationship marketing | Improving customer value through relationships and networks | Firms should develop customer retention strategies |

# 3. MSE Marketing in Kenya: A Situational Analysis

## 3.1 Policy, legal and regulatory frameworks

*Policy on MSE marketing*

The role of government is one of providing an enabling business environment that ensures access to markets and reduces policy-induced biases against MSEs. Governments can accelerate the development of markets for MSEs by improving competitiveness of the markets or value chains in which MSEs operate, enhancing links to regional or international markets, and helping MSEs compete in these markets, gain knowledge and know-how to meet the changing market demand of the global or even domestic market place. In Kenya, the failure to remove bottlenecks in policy and legal frameworks for micro and small enterprises can largely be traced to the obsession by the government to promote large industrial concerns, mainly foreign investments, at the expense of the struggling indigenous Jua Kali.

It was not until *Sessional Paper No. 1 of 1986* (Government of Kenya, 1986) that issues concerning MSE marketing received attention in policy circles. The following table summarizes the various government policies on MSE markets and marketing.

**Table 3: Review of MSE marketing policies**

| Policy reference | Prescription |
| --- | --- |
| Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth | • Provision of mechanisms to disseminate information on market opportunities and appropriate production processes for MSEs<br>• Lowering of tariffs on raw materials and other intermediate inputs used by MSEs<br>• Regulations on tendering to favour small-scale producers<br>• Encouraging MSEs in manufacturing and services to form cooperatives<br>• Enhancing and expanding access to credit |

| | |
|---|---|
| Sessional Paper No. 2 of 1992 on Small Enterprise and Jua Kali Development in Kenya | • Conducting market surveys to identify opportunities for product diversification and new product development and identify new potential markets in the rural areas<br>• Using public procurement and regulations to help MSES find markets for their products in the public sector<br>• Developing mass media techniques for dissemination of information in all MSE sector through District Development Officers<br>• Developing and promoting appropriate inter-industrial linkages through tax incentives and measures as a means of stimulating demand for and supply of MSE goods and services<br>• Encouraging MSE sectoral associations as a means of providing collective and cost-effective material sourcing and market channels |
| Sessional Paper No. 2 of 2005 on Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction | • Consolidating and harmonizing trade licensing and regulation services to make them effective and user friendly to the MSEs<br>• Allocating at least 25 percent of government procurement to the MSE sector by adjusting tendering procedures for MSEs participation<br>• Encouraging subcontracting arrangements between small and large firms through tax incentives<br>• Establishing trade information centres<br>• Restricting dumping of imported goods<br>• Branding Kenya products through the “Buy Kenya-Build Kenya” campaign and increased publicity and dissemination of information to MSEs<br>• Promoting ICT to enhance MSE marketing activities<br>• Formulating a national export policy for MSE products |
| National Development Plan (1997-2001) | Strengthening marketing and technological development to enable small enterprises and Jua Kali to conduct market surveys and provide databases for marketing technology |

It is evident from Table 3 that numerous policies on enhancing market access for the MSE sector have been proposed. Despite this, the results have not been satisfactory due to poor coordination among implementing agencies and institutions. Furthermore, the policy prescriptions have not been based on adequate needs assessments and market surveys. Most of the policies are mainly generic; for instance, almost all the Sessional Papers (No. 1 of 1986, No.2 of 1992, and No. 2 of 2005) contain generic measures including the use of public procurement, promoting inter-industrial linkages and conducting needs assessment. Appreciably, the Sessional Papers identify the government departments and ministries to spearhead the implementation of the policies. However, they fail to provide a time-bound framework for implementation and specific target groups. Even where the time frame is provided, they fail to institutionalize a monitoring and evaluation system that would be key in tracking implementation. Where government departments and ministries were assigned tasks, this was not accompanied with sufficient capacity enhancement (budgetary, human, technical and institutional support) to ensure implementation. Similarly, the release of the Sessional Papers by government is not accompanied by sufficient dissemination. This explains the low levels of policy awareness in the sector (Moyi, 2005).

In addition to the observations above, one of the main weaknesses of MSE marketing remains ineffective policy design, weak implementation framework, and failure to institute and effectively monitor policy implementation. In the past, the policy formulation process and design was not consultative and was largely driven by Government. As a result, policy failed to address specific needs of the target groups (Kenya, 2005). Furthermore, the lack of coherent monitoring and evaluation has stifled any efforts to check progress on policy implementation and to identify policy gaps and take corrective action. There are no mechanisms to initiate feedback processes and assess impact.

***Legal and regulatory framework***

Excessive regulatory constraints inhibit business competitiveness. Regulations impact negatively on the growth of MSEs because they absorb scarce management time, increase fixed costs, restrict operating flexibility and divert scarce financial resources from productive investment. They impose costs and inflexibilities that frustrate and impede the smooth operations of MSEs. Results of a recent survey of perceptions on the regulatory environment by MSE associations in Kenya are reported in Table 4. In all the three areas analysed (technology, marketing and workspaces), almost two-thirds of the respondents indicated that the regulatory environment has been largely disabling, with only about one fifth indicating that it has been enabling. This situation seems to have either deteriorated or remained the same since the year 2003. By extension, this result implies that the new government had to speed the reforms in the MSE sector, if the sector was to be relied upon as a pillar of employment creation. This is critical since the *Economic Recovery Strategy for Wealth and Employment Creation* (Government of Kenya, 2003a) expected over 88 percent of 500,000 jobs to be created in this sector.

**Table 4: Perceptions on regulatory environment by MSE associations (%)**

| | **Current situation** | | | **Change over last 2 years** | | |
|---|---|---|---|---|---|---|
| Area | Enabling | Variable | Disabling | Improved | Remained the same | Deteriorated |
| Technology | 15.9 | 28.0 | 56.0 | 18.4 | 48.9 | 32.8 |
| Workspace | 22.2 | 22.2 | 55.7 | 20.7 | 41.3 | 38.0 |
| Marketing | 15.8 | 27.7 | 56.5 | 20.0 | 45.6 | 34.4 |

*Source: Moyi (2006)*

The MSEs in Kenya face cumbersome laws and regulations, which are not sensitive to MSE operations (see Appendix). The current laws relevant to trading in Kenya are administered by various bodies with divergent objectives, all governing licensing of businesses. The multiplicity of the trade licences is an impediment to growth of businesses in a liberalized economy. Implementation and enforcement of the regulations impacts negatively on MSE growth as current licensing provisions give wide discretionary powers to the licensing officers to grant, revoke, cancel or renew licences (Mullei and Bokea, 1999). The existing structure of bureaucracy negatively affects MSES depending on the sector because of the many procedures and institutions that are involved in the establishment and operations of the MSEs. It is clear that time and knowledge is needed to complete all the processes, which many MSEs find difficult and complicated.

Over time, the government has reviewed some outdated trade-related laws that have become irrelevant in a liberalized economy. These reforms culminated with the revocation of 17 inhibiting laws in the 2005/06 budget speech. In this budget speech, the government proposed to streamline the business licensing system and review competition laws to bring them into line with regulatory best practices.

From the preceding analysis, the legal and regulatory environment in Kenya is inhibitive because a number of existing laws and regulations are cumbersome. By-laws applied by many local authorities are not standardized and roles of many institutions are overlapping; the bureaucratic and lengthy process of transacting business with government agencies adversely impacts on the operations of MSEs. The centralization of business names in Nairobi poses problems especially to the MSEs located in the rural areas. All these translate into high costs forcing many MSEs to remain informal. The Single Business Permit initiative launched in 1999 is not yet fully operational and the fees charged are considered to be too high by many MSEs (Government of Kenya, 2005).

In this regard, the government is committed to continue with the legislative reforms, which encompass review and updating of existing information and enactment of new laws. Thus, favourable regulatory environment is to be achieved through consolidation and harmonization of trade licensing and regulation services. The *Sessional Paper No. 2 of 2005* promises to decentralize the registration of businesses in order to cut costs for MSEs. The government would also amend the Local Authority Act to make the by-laws supportive rather than punitive to the MSEs.

## 3.2 Institutional frameworks for MSE marketing

Although there are many agencies (NGOs, Government and the private sector) that provide support for the MSE sector, the institutional framework for facilitating the planning, implementation, coordination and impact assessment of marketing activities within the MSEs is weak. Better coordination and interaction across the various institutions would enhance networking as well as access to information. As noted by Mbugua (1999), one of the main problems in policy implementation is the lack of collaborative arrangements between the implementing and other organizations as well as weak linkages between established formal marketing institutions and MSEs. Ideally, MSEs have limited means in obtaining effective and relevant information on market availability to enable them market or sell their products. The information should be provided by centres that include Chambers of Commerce, MSE development agencies, and associations as well as trade, industry and tourism bureaux. However, these are not within easy reach of most MSEs.

***Government institutions***

Despite the success of MSE strategies in a few countries, the majority of developing countries have found that the impact of their MSE development programmes on enterprise performance has been less than satisfactory. Underlying the search for best practice are some basic questions: What is the justification for public intervention in the first place? Should MSEs be singled out for assistance? If there is a justification for government intervention, what form should that intervention take?

Governments can intervene by:

- Removing information and other market failures associated with the provision of technical and marketing support to MSEs.
- Allowing the growth of MSEs to provide a seedbed for the emergence of dynamic and efficient large-scale national firms

and consequently a more flexible and competitive domestic economy.

- Providing a micro environment (whether private, government or NGO markets and institutional) support that is external to the firm.
- Ensuring well-functioning support systems that minimize the transaction costs and competitiveness of the MSEs.

Direct government involvement in marketing services is usually justified on the basis of the market failure argument. The role of the state is to provide an enabling business environment that allows access to markets. In Kenya, the Department for Micro and Small Enterprise Development (MSED) in the Ministry of Labour and Human Resource Development (MLHRD)[7] was established to coordinate MSE activities related to policy formulation, implementation, monitoring and evaluation. In addition, the department coordinates the activities of Jua Kali associations in the country and implements the "jua kali" sheds programme. By 2003, there were about 1,235 Nyayo and Jua kali sheds in 82 sites countrywide (Government of Kenya, 2003b). These initiatives were funded by several donors – GTZ, DANIDA, UNDP, UNIDO and the Belgian Government.

Other government institutions that are key in the area of marketing include the Ministries of Local Authorities, Cooperative Development, Agriculture, Livestock, and Trade and Industry. Among other functions, the Ministry of Cooperative Development is charged with the task of developing the policy and regulations to guide the formation, operations and organization of cooperative societies (Savings and Credit Cooperative Societies – SACCOs). The Ministries of Agriculture and Livestock Development are

7 Whereas some MSE policy issues are executed by MLHRD, policy issues on SMEs fall within the mandate of Ministry of Trade and Industry. Supervision of the technical institutes and institutes of technology fall under the Ministries of Education, Science and Technology.

involved in the design of agricultural and livestock marketing policy. The development of market sites, markets and workspaces, is the responsibility of local authorities that fall under the Ministry of Local Government. In the area of exports, the Export Promotional Council and Export Processing Zones Authority provide both policy and institutional support to aspiring Kenya exporters.

***Private sector institutions and non-governmental institutions***

Unlike the "market failure argument" that supports government interventions in the market, the neoclassical school supports market forces through "the invisible hand of the market" in resource allocation. Some of the private sector firms that have visible programmes for MSEs include British American Tobacco (BAT), Coca Cola and Unga Group. BAT in collaboration with the Ministry of Trade and Industry has been sponsoring annual trade fairs since 1989. The financing of these fairs has been shared on a 60:40 ratio between BAT and the government. Similarly, BAT supports business linkages by building kiosks for small traders who are supposed to stock BAT products, among other goods. Coca Cola has developed a strategy to boost their sales by using MSEs that are provided with kiosks, vending trolleys (*mikokoteni*) and shipping containers used as wholesale outlets.

Similarly, the Asian Foundation has supported the construction of two markets in Nairobi: City Park Hawkers Market and Kibera Hawkers Market. The two markets were constructed in 1989 and 1996 respectively. City Park Market houses 1,000 traders while Kibera Market accommodates 500 traders. Due to governance problems, the philanthropic efforts of the Asian Foundation to set up a third market for *ciondo* weavers (mostly women) were frustrated by the Nairobi City Council. The land earmarked for the market was allocated to a private developer.

The role of MSE associations in marketing is well documented (Bennet, 1998; Aede, 1997; ILO, 2000; Sahley, 1995; Helmsing, 2000). MSE associations benefit MSEs in various ways. As institutions of private interest governance, they disseminate and enforce a stock of common quality, standards, rules and norms. Similarly, they can disseminate marketing knowledge within the sector and they improve the ability of MSEs to bargain and combat market injustices, through collective action. MSE associations provide a forum for learning on best and worst practices in marketing, share useful experiences and understand market dynamics. Similarly, they function as channels through which local producers can seek and acquire crucial tacit knowledge for local adaptation, either directly or indirectly. For instance, the Kenya Association of Manufacturers[8] is a leading representative organization for industry and assists firms to identify and prioritise export markets. The Association conducts market research and studies, organizes trade missions to COMESA countries, and assists companies with import-export issues and business networks.

The Marketing Society of Kenya (MSK)[9] was established under the Societies Act (Cap 108, Laws of Kenya). It is open to persons or corporate bodies with genuine professional and active vocational interests in marketing. These include marketing companies, advertising agencies, and media owners. Others are students of marketing, persons or organizations providing professional marketing services, and diplomatic personnel dealing with matters of marketing. The problem with the MSK is that it is likely to be dominated by large-scale firms and, therefore, lays more emphasis on issues that affect such enterprises – at the expense of small firms.

8 See <www.kam.co,.ke>

9 See <www.msk.ke>

## 4. Case Studies

In this section, case studies on MSE marketing involving selected developing and developed countries are presented and reviewed. These case studies are meant to provide evidence of the problems faced by MSEs in their marketing, and how various countries have responded to the challenges posed by these problems.

### 4.1 Country-level best practices in marketing: Kenyan cases

The two cases discussed here present the experiences of various Kenyan MSEs and how they have been able to integrate various marketing aspects in their businesses. It is an overview of some "success stories" within the Kenyan context.

***(a) Bedi Investments exporting strategy***

This is a case of buyer-seller relationships for competitiveness in a garment making enterprise in Kenya.[10] It illustrates how MSEs can learn to export by building technological and export capabilities. This is achieved by integrating the tacit elements of any technology acquired by drawing upon a variety of internal and external inputs to build up capabilities, and maintaining linkages with the customer in the export market.

Bedi Investments is unique in Kenya as it grew from a small into a medium enterprise; it began in the local market and then moved into exports. Established in 1975 by a Kenyan entrepreneur as a small family-run garment firm, producing for the local market, the entrepreneur was not content with remaining small and localized and developed a business strategy for Bedi's future growth. Over the years, it integrated backwards into making fabrics

[10] This draws on Wignaraja and Ikiara (1999).

and yarns and emerged as one of the most modern integrated textile-garment plants in the country. The firm gradually moved into exports and was wholly export-oriented by the mid-1990s with an export value of US$ 4 million.

Bedi's move into exports was greatly assisted by a long-term stable marketing arrangement with a foreign buyer. It made contact with the foreign buyer at an overseas trade fair and began exporting on a small scale. The foreign buyer soon became impressed with the price of Bedi's products and its timely delivery and decided to assist with quality improvement. The buyer encouraged the adoption of ISO 9000 and provided Bedi with information about the ISO programme as well as helping with the implementation. Initially, the buyer arranged for an audit by a qualified consultant from abroad and subsidized its cost. It then helped Bedi implement the post-audit changes in the process including the purchase of new equipment, metrological tests, training of workers and hiring of quality personnel, and a detailed monitoring system. Finally, it helped Bedi with the process of verification and certification by an independent accredited agency. In 1994, Bedi had a 26-strong quality control department (7.3% of employment) and its internal reject rate was under 1 percent. The implementation of the ISO 9000 system doubled Bedi's labour productivity growth to 6 percent per year (between 1984-89 and 1989-94), and enabled it to expand further into exports by attracting two more foreign buyers.

Bedi's technological capabilities have improved significantly over time. It has a good capacity to search and negotiate terms for imported technology (one of the best production capabilities in the Kenyan garment industry) and good technological linkages with foreign buyers and equipment suppliers.

In a nutshell, the following useful lessons can be drawn from Bedi's experience:

- Forward and backward linkages increase efficiency through the value chain process; i.e. from making fabrics and yarn to garment production and finally to export selling, the same also ensures product differentiation.

- Long-term marketing arrangements can be done through sub-contracting.
- Highly skilled staff in all aspects of production enhances quality improvement and maintenance of products.
- Technological capabilities increase efficiency in production and quality control and timely delivery of products.
- Standardization of products through ISO 9000 certification ensures high quality products.
- Promotion of activities through overseas trade fairs provide opportunities for sub-contracting arrangements.
- High dependence on foreign buyers for product designs improves innovativeness

***(b) Kenya Gatsby Trust Support for Carvers***[11]

Kenya Gatsby Trust (KGT) is a non-profit making organization that supports the enterprise sector to grow and increase productivity for poverty reduction and wealth creation. Currently, KGT functional scope includes facilitation, access and sustainability of markets for local products through business development services, micro-finance services and technology-based services. Under business development services, the KGT works with three carvers' cooperatives in a targeted fashion to enable them access local, regional and international markets with Neem carvings, which meet stringent quality standards by adopting better business and carving practices. The associations collaborating with KGT are the Akamba Handicraft Society (with more than 5,000 carvers), Malindi Handicrafts Society (with over 2,400 members) and Machakos District Cooperative

[11] This case study draws on Gatsby (2004)

Union (covering 8 primary associations with a combined membership strength of 2,300 members).

Some of the challenges facing the carvers include:

(1) The difficulty in minimizing wood shrinkage, movement, checking and cracking. In addition, the high moisture content of finished wooden carvings encourages the growth of unsightly surface moulds. This results in poor quality lower value products hence trade losses. In addition, the reputation, skills and confidence of these carvers are undermined.

(2) There is increasing demand by international buyers for ethically sourced carvings. This means that buyers of woodcarvings are becoming more and more aware of the negative impacts caused by over-exploitation of forests through unsustainable harvesting of trees. To reverse the trend, they are insisting on those carvings coming from well-managed forests or certified ones.

(3) Carving has over the years concentrated on traditional artefacts with limited market-led product development. The market for carving products is dynamic and changing. This then reduces the market potential for the carvers – impacting negatively on their incomes.

In this programme, KGT has put in place a strategy to address the above technical challenges along the production process and to:

(1) Develop appropriate quality assurance system,

(2) Facilitate the carvers in product development and design improvement by use of storyboards and digital imaging process,

(3) Facilitate certification of carvings with clear tracing system to verify that any wood products being classified as "certified" are really from managed sources,

(4) Work with the Kenya Bureau of Standards to establish quality standards for neem products,

(5) Carry out organisational analysis of Community Based Organisations (CBOs) with a view to identifying capacity building needs especially in line with product development, marketing development, and organizational management development,

(6) Facilitate cultivation of Neem commercially to reduce harvesting from wild and make the plant more attractive to overseas users who do not approve of putting natural resources at risk, and

(7) Link with ICIPE and other research organizations to develop gene banks and develop new varieties through experiments that are higher yielding and better for commercialization.

Lessons learnt from Kenyan MSE experiences include:

- MSEs need efficient backward and forward linkages for increased efficiency within the value chain from product assembly to market linkage services.
- Adoption of appropriate technology is necessary to produce better quality products.
- Quality assurance services through certification of various International Standardization Organizations (ISO) are essential, especially through the Kenya Bureau of Standard (e.g. ISO 9000 certification).
- Knowledge acquisition on business management and skills development is necessary to improve business development services.
- Product packaging, costing and the establishment of a Kenyan label for domestic and export markets improves marketing of products.

- Formation of associations that would enhance in lobbying and advocacy of issues affecting MSEs is necessary.
- Market information services and market research are important as they expand market outreach.

### 4.2 Ethiopia: Access to markets through exhibitions and trade fairs[12]

The majority of women entrepreneurs in Ethiopia operate within the informal sector. Many of their economic activities are related to their traditional roles—cooking, embroidery, tailoring, handicraft production, knitting, etc. They face overcrowded markets, stiff and unequal competition and a limited customer base. Despite the identified need to improve their marketing skills and extend their customer base, they lack the experience and knowledge in using marketing strategies such as trade fairs to find new markets. In addition, exhibitions and bazaars in Ethiopia lay emphasis on retail trade rather than on promotional marketing. Participation of MSEs and women micro-entrepreneurs in these marketing events is limited as there is very little government support available for the development of the sector.

Given such challenges, especially in developing countries, the Women's Gender Equality Unit, WEDGE, was established as part of IFP/SEED[13] to work on the improvement of economic opportunities for women entrepreneurs. The unit is working to identify the factors that affect women entrepreneurs as they establish and grow their enterprises in Ethiopia, Tanzania and Zambia. As part of this work, WEDGE identified the need to support women entrepreneurs in Ethiopia with activities geared towards

12 Adapted from Barney-Gonsalez and Gebreselassie (2002)

13 The InFocus Programme on Boosting Employment through Small Enterprise Development, IFP/SEED, is one of ILOs programmes focusing on the situation of men and women in the MSE sector.

access markets through marketing events such as trade fairs and exhibitions.

The purpose of the project was to:

(1) Provide a market opportunity to an identified group of 20-25 women micro-entrepreneurs by facilitating their participation in the Addis Ababa Exhibition and Bazaar for locally produced goods,

(2) To look at the role of trade fairs in market access strategy and confidence building process for women entrepreneurs and the applicability and potential of the ILO-assisted systematic support for women entrepreneurs for replication in Ethiopia and other countries, and

(3) To adopt a systematic approach in preparing, training, supporting, monitoring and evaluating the women entrepreneurs throughout the trade fair process.

A training workshop was organized for 20 women entrepreneurs prior to the trade fair to prepare them for the challenge of the event by developing their basic marketing knowledge and a more results-oriented outlook. The marketing problems identified by women during the workshop were technical and social in nature. After the workshop, the women attended a trade fair. The trade fair was a 9-day event. It provided women with direct experience in handling customers. It was also an opportunity to gather feedback on their products, identify bestsellers, learn about competitors in the local industry, identify new sources of supply, and make business contacts.

The main benefits and learning points that the women entrepreneurs derived from the trade fair were:

- Building the woman entrepreneur’s confidence.
- Taking initiatives and organizing themselves to do other activities (although the group had been working together for only a few days).

- Having an empowering effect on the women; the gradual increase in the number of visitors played a role in raising women's confidence, as it demanded a communication effort that gave them an opportunity to talk to the different visitors.

Overall, the impact of the systematic trade fair process was very positive and had impact at two levels: technical (by providing specific marketing knowledge), and social (by providing space for women and an environment to work together in a group). The feeling of encouragement and equality expressed by the women, and in particular by women with disabilities, was a major success. The quality of the training, the level of the intensity of the experience, and the unintended shock effect of the concentrated new experience probably contributed to such a rapid change. They were able to make contact with potential buyers and learn from what others are doing. It was successful, both as marketing strategy and as an empowering process for the women entrepreneurs in this project. Therefore, it is recommended to continue supporting trade fairs for women entrepreneurs as it proved to be a process able to promote effective change in them over a short period of time.

## 4.3 India: Marketing development through the cluster approach

This case study presents the experience of the UNIDO Cluster Development Programme in India (UNIDO, 2002a). The programme targets existing clusters of small-scale enterprises (defined as large groups of firms operating in the same industry and localized in the same geographical area). The broad objective is to foster the collective efficiency of small-scale enterprises and improve their support system so that they can exploit the opportunities available in their national market as well as in the global one.

***(a) Interventions in Jaipur***

Colourful hand-block printing enjoys a long tradition in Jaipur, the capital of Rajasthan, where approximately 550 small firms engaged both in hand-block and screen printing provide employment to almost 10,000 workers. Since the 1980s, exports have picked up as a result of the growing worldwide appreciation for ethnic design and co-friendly dyes. Traditional hand-block printers based around the city of Jaipur, mainly in the villages of Bagru and Sanganer, failed to keep up with the growing demand, especially in the 1990s, progressively giving way to locally-based screen printers. The latter not only enjoy lower production costs, but they also take advantage of the industry's reputation by picking up the same designs while replacing vegetable dyes with synthetic ones (even though the textiles are marketed as having been printed with natural dyes). The increasing competition from screen printers had forced the block printers to squeeze their profit margins and increase the degree of self-exploitation.

The diagnostic study conducted in 1997 identified an unexploited capacity for traditional artisans in the cluster to target profitable national and world markets. The vision and action plan developed for the cluster envisaged a revaluation of traditional form of production and an improvement of the living standards of the artisans by:

- Reducing the cluster disarticulation (i.e. lack of linkages among cluster actors),
- Enhancing the design, production and marketing capacity of the firms,
- Developing a product image (including a common brand) in line with current market demand, and
- Improving and increasing the types of BDS available in the cluster.

The most significant obstacles preventing the realization of such a vision included:

- Lack of communication among the artisans,
- Absence of an active association,
- Inadequate quality control capacity of the entrepreneurs,
- Lack of design and marketing skills as the hand-block printers had grown accustomed to working as sub-contractors for exporters, and
- Inadequate access to credit.

As a result of the UNIDO intervention, the dormant artisan association, Calico Printers Cooperative Society (CALICO) has been revitalized, with its membership increasing from 26 artisans to 120, and the creation of a common show room. In addition, several networks have been promoted and an export consortium, Consortium of Textile Exporters (COTEX) has been formed. New products and designs have been introduced with the assistance of the National Institute of Fashion Technology (NIFT) and a common brand image has been promoted, all accompanied by the provision of marketing courses and the establishment of both national and international market linkages through joint participation in trade fairs. A credit scheme has been promoted with the assistance of the Small Industries Development Bank of India (SIDBI). Finally, a NGO active at the cluster level, the Indian Institute for Rural Development (IIRD), is increasingly playing the role of a cluster development agent.

***(b) Cooperation among the Block Printers of Bagru***

Creating an environment of mutual trust among competing small scale enterprises rarely proved as hard as in the case of the block printers of Bagru, a village near Jaipur. The diagnostic study disclosed that an attempt to cooperate had failed some twenty years before and that no further move had been made ever since. The reluctance of the firms to participate even in an introductory meeting indicated that 20 years of bitter competition had made any trust-building initiative remarkably difficult.

The Focal Point, therefore, shifted the focus of awareness building towards the artisans' sons (themselves block printers) hoping that they may not yet share the same mutual mistrust and, through their superior education, would be equipped with a longer-term approach to business. A series of one-to-one interviews were conducted to identify the needs and priorities of these young artisans. It thus emerged that they shared a keen interest in strengthening marketing skills, and that they would contribute to a suitably designed training course. In conjunction with a locally operating NGO and with the support of the Small Industries Development Bank of India, a market orientation-training programme was organized in Bagru for 23 young artisans with an average age of 21. Besides class teaching on marketing promotion, quality testing, product development, advertising and distribution, the programme included a visit to New Delhi (to showrooms and representatives of artisan support agencies) and to Jaipur (to the larger block printers as well as trading houses).

The reaction of the young artisans was enthusiastic. They emerged more confident about their marketing skills. They also reported a greater deal of interests towards various existing artisan support schemes (which, they admitted, had been unknown to them before the programme) as well as their surprise regarding the profit margins that showrooms earned from products bought at Bagru. Their enthusiasm rapidly spread to their parents who started to come to subsequent meetings (often the very same people that had declined to participate earlier on and had actually displayed a certain degree of aggressiveness). As a result, 16 hand-block printers voluntarily took part in a UNIDO/SIDBI supported pilot project whereby an external designer was hired to pool together the block design of the various printers and develop new designs, which would appeal to foreign buyers. Subsequently, a common brand was created which distinguishes original Bagru products. On the basis of this brand, the same printers have been able to participate jointly in major textile fairs in India, thus significantly broadening their markets.

### 4.4 Brazil: Linking local producers and foreign buyers through value chains

This case study draws on UNIDO (2002b) and Schmitz (1995). The Sinos Valley is an impressive concentration of local firms characterized by: division of labour and specialization among firms; the provision of specialized products and services; the emergence of raw material and component suppliers; the growth of machinery and spare part suppliers; the emergence of agents who sell to distant national and international markets; the growth of specialized technical, financial and accounting services; the formation of associations providing services; and, the lobbying for its members.

In the late 1960s, a well-developed cluster already existed in the Sinos Valley producing almost entirely for the internal market. During the 1950s and 1960s, this cluster had been able to grow and increase its share of the internal market. Due to a policy of import substitution, this market was protected from imports but there was internal competition. The sectoral and geographical concentration laid the basis for the subsequent export boom in two ways. First, US shoe importers were looking for new shoe suppliers in low-wage countries. The Sinos Valley manufacturers were able to land their first contracts because importers recognized the advantage of buying from an established cluster, which included specialized local input suppliers. Second, the local manufacturers, through collective action, were involved in promoting the national shoe fair overseas, where they invited foreign buyers and foreign journalists. Advertisements to promote Brazilian shoes were placed in foreign papers. A consortium of producers took their products to the US and Europe in search of exports orders. All this was aided by export incentives introduced by the Brazilian Government in 1969-1970 as well as export agents, who were very effective in connecting the Brazilian producers with the US market. Thus, in matter of a few years, a cluster of local producers, most of them small, were plugged into a distant mass market, transforming local producers into mass producers.

***The role of export agents***

Export agents in the Valley included ex-manufacturers from US, US Retail Offices, and independent foreign agents. The agents eased the considerable risks of entering export markets. Apart from negotiating with the US retail chains, on one hand, and the Brazilian producers, on the other, the agents held other functions. They studied the market, which necessitated visiting shoe shops in the US and Europe as well as international shoe fairs. They developed models that required setting up model shops in the valley to produce samples. They inspected product quality and production schedules on site and provided technical assistance and as well organized transport and payment arrangements. All this required building up substantial technical departments for which they initially recruited experienced personnel from the US and Europe but then pirated skilled workers from the local manufacturers.

***Self-help institutions***

A number of institutions were set up prior to the export boom: The Shoe Fair Organisation (FENAC, 1963), the SENAI Tannery School (1965), The Technical School Liberato Salsano for Chemistry and Mechanics (1966), The SENAI School for Shoe Design and Manufacturing (1968) and the Technological Center for Leather, Shoe and Related Industries (CTCCA, 1972). The main purpose of FENAC is to hold shoe fairs as well as components and machinery for the shoe and leather complex.

The industry expanded rapidly during the 1970s and the first half of the 1980s. Product development and marketing were taken care of by the export agents; they also enforced adherence to quality and delivery standards. Export manufacturers concentrated on increasing scale and competing on price. However, rapid export growth came to an abrupt end in the second half of the 1980s. This is symptomatic of the dangers inherent in global value chains. In such chains, global buyers actively scout for new sources of supply, and substitution by new sources is always a threat to existing suppliers. Indeed, some of Brazil's main buyers in the United Sates helped to build Chinese export capability. As a result, the Brazilian producers were faced with sharply declining prices for their products in North America.

The reason was increased competition from other countries with even lower wages. The main threat came from China. Chinese exports to the US squeezed Brazil out of the American market for low priced leather shoes. As a result, Brazil manufacturers are forced to move up market. This is not easy because in addition to the threat from China and other exporting countries, changes have occurred in the US market competition among American retailers concentrating increasingly on reducing the cost of inventory. This is beginning to have implications for the way shoe production is organized in the Valley.

Advances in marketing did not match the advances in production, even though the firms tried. The Brazilian producers worked out a collective strategy of raising Brazil's image in the world footwear markets, strengthening design capabilities, and exhibiting in significant numbers at the main trade fairs. However, the proposed strategy was not put into practice mainly because a small number of very influential export manufacturers did not support it. They feared that advancing into design and marketing would upset the relationship with their main foreign buyer, which accounted for more than 80 percent of their output and close to 40 percent of the cluster's output.

Thus, Brazilian manufacturers have to adjust to three changes in the market: smaller orders, shorter delivery times and higher quality requirements. Firms have responded in various ways. Large production departments are being broken down into mini-factories. A number of large firms have gone out of business. Some firms are modifying their marketing towards diversification and direct sales to European retailers. However, by reorganizing their factories and local supply chains, they raised quality, reduced batch size and increased speed. Indeed, the buyers helped them switch to a new way of producing.

## 4.5 Tanzania: Formalizing small enterprises through franchises[14]

Hanna Nassif is a residential suburb on the outskirts of Dar es Salaam. Given that waste collection services were neglected by the City Council, there was too much solid waste being dumped on the edges of the community and this had the effect of clogging the drainage system and contaminating the water. Such dumping was being done by individual households and informal waste collectors who gathered waste from households for a small fee. This system of informal waste collection had arisen but was not properly regulated to avoid public health problems.

To solve this problem, the ILO was approached to support the construction of a stone based water drainage system to channel waste water and rain water away from household dwellings. Through the SEED programme, ILO worked with the City Council to find an organized system of solid waste disposal, which could create an avenue for MSEs to access local government tenders, generate decent employment and improve the existing informal system. The plan involved a “micro-privatisation approach”, which consisted of public-private partnerships to franchise out 70 different areas of the city to small private enterprises and not-for-profit

[14] Adapted from ILO (2003)

community groups. The franchise is basically a permit to collect solid waste from households in a given area. Conditions attached to the franchise included willingness to receive training on how to handle hazardous and non-hazardous waste, recycling, safe and healthy working conditions, and adherence to core labour standards. Workers have been provided with handcarts, tools and protective clothing. This effort has helped to formalize and improve the working conditions of an informal activity. The system is the source of 1,500 jobs mostly for women and the youth.

This programme is an example of SEEDs efforts to tackle the challenges associated with the relationship between small enterprise competitiveness and jobs quality as well as the reduction of poverty through increased formalization of informal activities and the expansion of markets for MSEs. One of the key lessons from the Tanzanian case is that formalizing activities of MSEs can benefit both enterprises and workers. For enterprises, registration with local authorities opens up opportunities for accessing public procurement, reduces harassment and demands for bribes from local officials. It also reduces barriers to renting work or selling premises, using the legal system, accessing credit and gaining support from small enterprise development programmes. Thus, enterprises become productive and competitive mainly due to the potential for value-addition to their activities. For workers, formalization means that enterprises are covered by national labour regulations, such as hours of work and the minimum wage. It also entitles the workers to core labour standards such as freedom of association, the right to collective bargaining, freedom from forced labour, and from discrimination and the ban on child labour.

### 4.6 South Africa: Access to markets through preferential procurement policy[15]

Preferential procurement has also been called affirmative procurement, targeted procurement or positive procurement. It is a form of procurement that has been applied as an instrument of policy. In South Africa, the policy was developed by a task team appointed by the Ministries of Finance and Public Works to reform public sector procurement. Therefore, it is being used as a means to implement an Affirmative Procurement Policy aimed at eradicating the legacy of apartheid, which left South Africa with an inwardly focused economy, distorted by growth inequities, inefficiencies and under-developed resources and markets. Specifically, the Green Paper on Public Sector Procurement Reform in South Africa (South Africa, 1997) states as follows:

> In small contracts, all small, medium and micro enterprises should have the opportunity to participate. A development objective/price mechanism which targets ownership by previously disadvantaged individuals / women can be introduced. Typically, points can be allocated on the basis of the percentage ownership of the enterprise by persons falling into certain race and gender groupings.
>
> In medium to large contracts, goals can be set with respect to affirmative participation targets (Contract Participation Goals) to ensure participation by small, medium and micro enterprises owned and controlled by previously disadvantaged persons who have annual average turnovers commensurate with the limits provided for in the draft Small Business Enabling Act (Affirmable Business Enterprises).

[15] This case study draws on South Africa (1997) and Shakantu and Root (undated)

> Minimum participation or threshold goals can be set. Failure to achieve these goals would disqualify a tenderer, as it would be deemed that his/her tender has not complied with the specifications. Tenderers who tender increased goals can be awarded a preference in terms of the development objective/ price mechanism. In this manner, the price premium, if any, for requiring target group participation can be confined to within acceptable limits.
>
> Human resource specifications may also be used to facilitate joint venture formation with Affirmable Business Enterprises. The removal of restrictions on the turnover of any targeted enterprise, will afford larger emerging businesses owned by previously disadvantaged individuals who have outgrown their small, medium and micro enterprise status to be further developed by means of joint venture formation with larger established businesses.

In 2000, the government enacted the Preferential Procurement Policy Framework (PPPF) Act. The Act provided the basis through which affirmative action could be implemented to provide socio-economic opportunities to enterprises and individuals who had been excluded from equitable participation in the socio-economic life of the country. This affirmative action was to be implemented through all channels of government and the private sector. The Act also provides for the leveraging of government purchasing power in support of its economic policy objectives of Broad-based Black Empowerment and Small Enterprise Development. The construction industry was one of the first sectors of the economy to implement preferential procurement policies.

The PPPF Act requires an organ of the State to determine its preferential procurement policy and to implement it within a framework that includes a points system and specific goals. With targeted procurement, direct preferences are accorded to targeted enterprises to tip the scale in their favour on small contracts with a value below a predetermined financial threshold. This provides employment and accelerates access to business opportunities by marginalised/disadvantaged individuals referred to as “target groups”. By so doing, small businesses are encouraged into the mainstream economy.

Since 1996, the Department of Public Works has increased the proportion of its capital projects to 43 percent in favour of emerging contractors, compared to 4 percent in 1994. In the Limpopo Province for instance, 80 percent of the DPW projects are being undertaken by women and black-owned enterprises. At the Cape Town International Conventional Centre (CTICC) about 200 affirmable business enterprises participated in the project. Currently, there are over 3,000 construction firms registered with the Emerging Contractor Development Programme of which about 290 are women-owned.

Due to the PPPF Act, targeted enterprises can access public procurement system in a number of ways. They can either do it directly through participation as contractors or as joint venture partners, or indirectly as sub-contractors, suppliers, service providers and manufacturers to a prime (main) contractor in the supply chain. Essentially, what targeted procurement does is to unbundle or unpack contracts into smaller ones to make them accessible to targeted groups. Targeted procurement is being used to create demand for employment by encouraging the adoption of intensive work methods and labour-based technologies that increase employment. This has the implication that firms in the construction industry will have to reduce their reliance on capital-intensive technologies and increase the labour component. However, small-scale enterprises that by virtue of their size have limited access to capital would more readily employ such methods in comparison to large firms.

## 4.7 Colombia: Providing a mix of marketing and ancillary services

This example is based on an Inter-American Development Bank (IDB) project implanted in Colombia by a business development service provider

(PCS), which was previously established with IDB assistance (ILO/UNDP, 2000). It shows how a marketing service provider can help MSEs overcome various constraints, which prevent them from accessing larger and more profitable markets through the provision of a mix of marketing and ancillary services such as financial services and training. This example also shows that it is possible to achieve full cost recovery.

The PCS works with approximately 1,000 micro enterprises (less than 10 workers), with 50 percent being women and 50 percent being informal sector enterprises. These enterprises produce a variety of consumer goods for the local and national markets. The approach is based on the premise that for producers wishing to penetrate new markets or improve their position in the current market, the use of an intermediary may significantly reduce marketing costs, provide important consumer feedback, and open up access to a larger client base. The time consuming tasks assumed by marketing service providers include identifying new clients or markets, consolidating existing ones, sourcing good raw materials, and figuring out how to ship various kinds of goods to different destinations by various means of transportation. From working in specific sectors, marketing service providers often become experts in relevant issues, such as consumer preferences, and new trends and designs. This expertise translates into important suggestions and ideas for the producers in terms of what to produce and how.

The issue of sustainability was considered from the beginning of the project. In relation to buying, selling or brokering (i.e. the standard functions of a marketing service provider), the issue of sustainability is a relatively simple one, and it uses a simple mark-up mechanism. However, it was also felt that clients also needed some ancillary services, such as training and financing, without which the marketing services would have little impact. The cost recovery for these services is not feasible in the short term for a number of reasons, although it may be possible to achieve it in the long term. Therefore, it was possible to achieve a high, overall level of cost recovery by subsidizing the non-profitable ancillary services by revenues from the profitable marketing services. Thus, by the end of 1998, PCS was able to cover its full operational and administrative costs. In addition to profits derived from the buying and selling activities, PCS was able to increase revenues by playing the role of an intermediary in subcontracting arrangements. An important ingredient in the success achieved by PCS is the elaboration and application of a long-term marketing strategy based on an in-depth investigation of the sectors that it covered. Based on this strategy, PCS was then able to decide which clients it should serve, which services it should provide, and how they should be provided.

## 4.8 Lessons learnt from case studies

The six case studies reviewed above have demonstrated that the marketing function can be approached in various ways with different outcomes. Specifically, the studies have outlined the following lessons:

- *Market deepening*: Supporting markets for products and services like finance, business services, inputs, and ICTs can contribute significantly to enhanced marketing for MSEs. Similarly, marketing support is more effective when combined with ancillary services that enhance the quality and delivery standards of the goods or services.
- *Preferential treatment*: Affirmative action may remove barriers to accessing markets, especially for historically excluded sectors, such as the MSE sector and minority groups.
- *Clustering and inter-firm linkages*: Collective action in small enterprises helps small firms to compete at levels beyond the individual firms' singular capacity.

- *Special export support programmes*: While entering local markets may not need specialised services, external markets are more demanding and may require stepped up efforts such as export agents, export incentives.
- *Formalisation*: Marketing support for small enterprises is more effective when linked to generally accepted standards of business behaviours including labour and managerial standards, taxation, sector registration, financial discipline – all pointing towards enhanced formalisation.
- *Proximity to markets*: MSEs often possess an advantage if they are physically close or can easily establish relationships with the end consumers.
- *Flexible production*: MSEs that operate in industries that are exposed to seasonal demand especially in global value chains should be assisted to continuously adapt to advances in production, branding, marketing and so on.
- *Quality and standards*: Nations and companies are required of them greater compliance with an increasing number of safety, quality, environmental, and social standards. These tougher requirements present significant market obstacles to MSEs.
- *Business enabling environment*: This is defined by the array of policies, regulations and laws that have a potential of providing either an incentive or disincentive to small firms.

# 5. Requisites of a Marketing Framework for Kenya

## 5.1 Building blocks

Marketing begins with discovering the product that customers want to buy, setting a price, letting potential customers know about the product and making it available to them. Although standards and quality control are frequently lacking in many MSE products, there is need to ensure competitiveness particularly with respect to imported goods. It is a fact that 'the market sets the quality', not only regarding the quality of the product itself, but also in terms of handling, pricing and packaging. In addition, consumers require consistent regular deliveries of minimum volumes of a specified quality. To be competitive, any entrepreneur must respond to buyers' requirements by means of his or her knowledge of and communication with the market. Consequently, appropriate linkages with markets have to be put in place.

A review of theory (Section 2) and results from situational analysis in Kenya (Section 3) indicates a huge deficiency in the provision of marketing support for MSEs and scarcity of markets. Therefore, MSEs require five important support services in order to effectively market their products:

(1) *Policy, legal and regulatory environment*: This should be conducive for MSEs to thrive and grow, and trade their way out of poverty.

(2) *Marketing institutions*: These should provide marketing support for MSEs by strengthening inter-institutional coordination and networking.

(3) *Physical markets and marketing infrastructure*: These include retail/ wholesale markets, trade fairs, exhibitions, export agencies, sub-contracting arrangements, and so on.

(4) *Training and technical assistance*: Although there are many institutions involved in skills training, MSEs lack "hands-on" training to upgrade their products, increase productivity and improve packaging. MSEs

need regular training to enable them develop business ideas, carry out simple research, attain better reputation, attract and satisfy customers, get known in the market, fight competition, use credit facilities and so on.

(5) *Accessible and affordable financing*: Appropriate and affordable financial mechanisms remain a major constraint for MSEs. In Kenya today, most MSEs lack security to borrow money from financial institutions. Formal financial institutions perceive them as high risk and commercially unviable. As a result, only a few of them access credit from formal financial institutions.

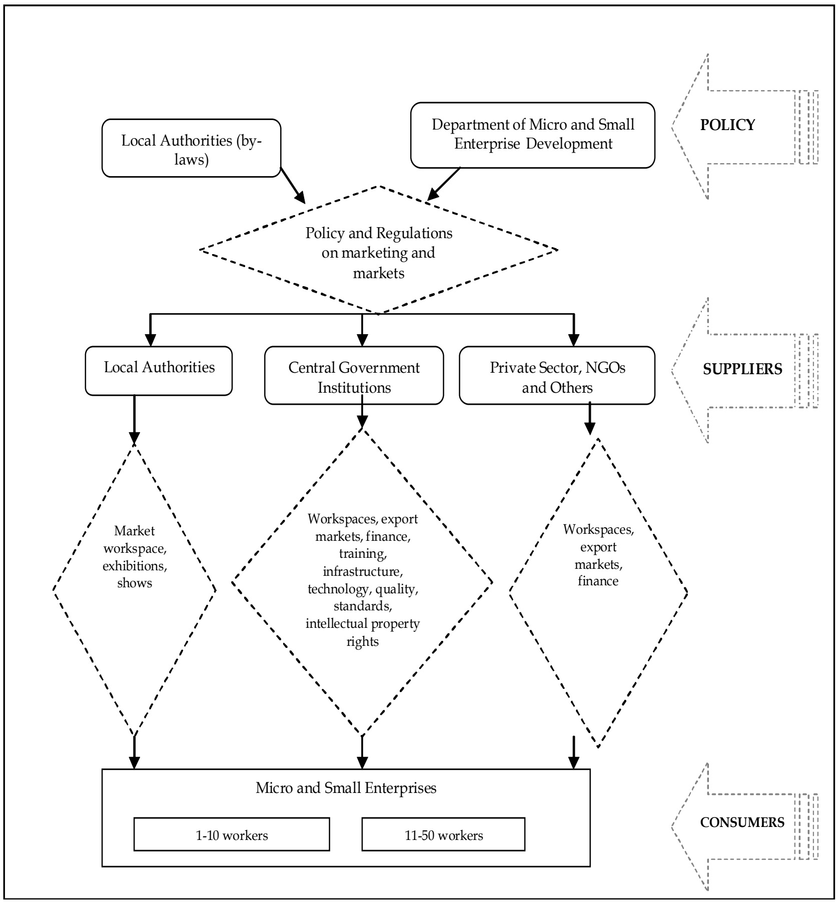
## 5.2 The current marketing framework

As highlighted in Section 3, the current marketing framework for MSEs suffers from various shortcomings. These include poor access to physical markets, lack of market information, inadequate market research, incomplete market information, lack of product diversity and low quality products, lack of accessible and affordable financing, weak promotional capacity, stiff competition, and lack of marketing institutional support, shallow sub-contracting markets, narrow product range, poor quality products and lack of product improvement. Similarly, there exists disconnects between policy and legal frameworks and the sector suffers from weak coordination of marketing institutions. Policy intentions (as espoused in various Sessional Papers) should be translated into legal instruments that are enforceable.

As highlighted in Figure 3, the apex of the current marketing model is occupied by two agencies working independently: the Micro and Small Enterprise Department at the Ministry of Labour and the Local Authorities. The former department is in charge of MSE policy, while the local authorities are charged with the responsibility of producing by-laws that guide the marketing function in urban areas. Supplementary laws affecting marketing are embedded in various Acts of Parliament (see Appendix).

The next level includes "Suppliers of physical markets", "Marketing services" and "Marketing infrastructure". Broadly, these are categorized into three groups. The first category includes central government

**Figure 3: Current marketing framework**




institutions. This category includes the Ministry of Labour (sheds, trade fairs and exhibitions), Kenya Industrial Research Development Institute (appropriate technology), Kenya Bureau of Standards (standards and quality), Kenya Industrial Property Institute (intellectual property rights), Industrial and Commercial Development Corporation (finance), Export Promotion Council (foreign markets assistance), and Export Processing Zones Authority (business incubation).

The second category consists of local authorities. Apart from the regulatory role, the main responsibility of local authorities in the marketing function includes provision of land for marketing activities (including trade fairs and exhibitions), development of markets and allocation of land and worksites to MSEs. The last category consists of the private sector and NGOs. These institutions mainly provide markets (e.g. Asian Foundation), trade fairs (BAT), kiosks, vending trolleys and shipping containers (Coca Cola). MSE associations have also played a useful role including market research (Kenya Association of Manufacturers).

## 5.3 Proposed framework for marketing

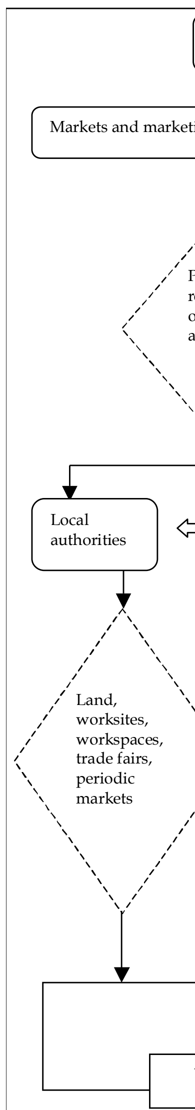
As shown in Section 1, the MSE sector in Kenya is vast and differentiated, with the various enterprise types having hierarchical needs. In terms of strategy, this implies that marketing interventions should be sensitive to the needs of the various segments by being differentiated and targeted. This approach implies different sets of support measures to address problems of *jua kali*, and micro and small enterprises. However, as a starting point, this paper develops a generalized marketing framework for MSEs. Thereafter, size-specific frameworks are developed. It starts by discussing the general marketing framework.

***General marketing framework***

Figure 4 is a schematic representation of the generalized proposed framework. There is a single coordinating institution (the National Council on Small Enterprise—NCSE) at the apex of the framework. Although the Council is not yet established, the institution at the top would be charged with the responsibility of coordinating all the activities, programmes and projects relating to MSEs in Kenya. Under the NCSE, there should be established two main committees to tackle marketing issues. These are Markets and Marketing sub-committee and the Monitoring and Evaluation (M&E) sub-committee. The two sub-committees should be constituted to represent the diversity of interests and stakeholders in the MSE sector, including MSE associations, key government ministries, local authorities, the private sector, NGOs and development partners. The role of the markets and marketing committee would be to deal with issues related to policy, regulations and the legal frameworks, whereas the M&E sub-committee would ensure that all the policy, legal and regulatory issues affecting MSEs are being implemented as either planned or agreed upon. In addition, the markets and marketing committee should establish mechanisms of assisting MSEs to undertake technical functions such as market analysis and developing marketing strategies (developing plans for products, communications, marketing channels, sales, pricing).

The resolutions of the two committees would be communicated to the providers of markets and marketing services (local authorities, central government, private sector and NGOs) to guide their operations. Local authorities, by virtue of their legal mandates, have a comparative advantage in providing land for markets, worksites and workspaces. They are also better placed to supply infrastructure in the physical markets. Central government institutions (government ministries and parastatals) would then support the marketing function in MSEs through training and technical assistance (technology, quality and standards), credit and finance, and access to export markets. Such institutions include the Ministries of Labour, Cooperatives, and Trade and Industry, and the Export Promotion Council, Export Processing Zones Authority, Kenya Bureau of Standards, Kenya Industrial Property Institute, etc. To complement Government efforts, the private sector should be encouraged to provide ancillary services (training and technical assistance, credit

**Figure 4: Proposed marketing framework**

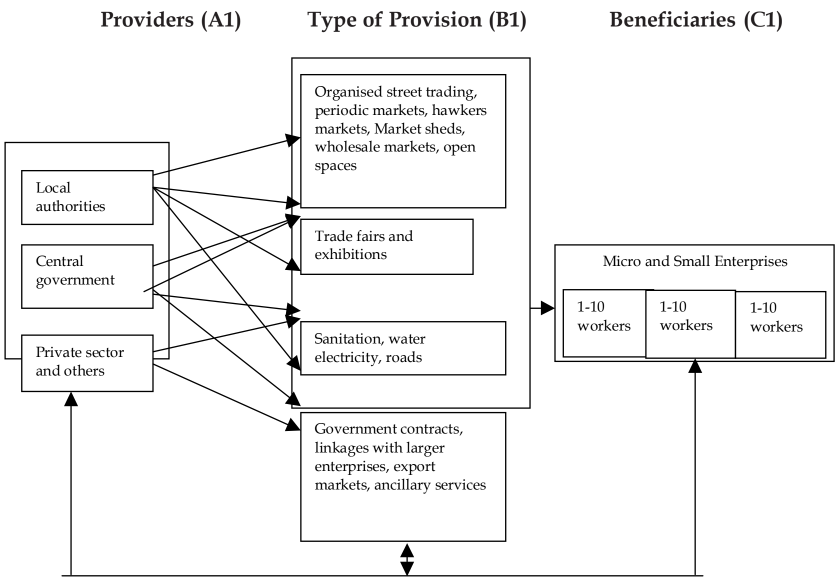



and finance, and access to export markets) to MSEs. In the new framework, the local authorities, the central government would network much more intensely in order to harmonize their joint and several tasks.

*Framework for micro-enterprises*

As highlighted in Section 1.4, most enterprises in this category are informal. Most of them opt to operate in the informal sector due to inhibitive laws and regulations. Their informality denies them benefits associated with publicly provided-goods and services such as market spaces and stalls, linkages with government procurement, sub-contracting arrangements with larger enterprises and access to export markets, access to national markets through trade fairs and exhibitions.

**Figure 5: Proposed framework for micro-enterprises**




In the proposed framework (Figure 5), Column A1 contains three types of providers. The types of provision are indicated in Column B1. The role of local authorities would be to ensure adequate supply of markets, market stalls, workspaces and land for periodic markets, open trading and hawking. Local authorities would be entirely expected to provide land for market development, develop markets sheds in retail markets and wholesale markets. Local authorities would also provide open spaces especially for service-oriented enterprises, as well as demarcate certain areas that are convenient for trade fairs and exhibitions, and provide requisite infrastructure. It would also be the role of local authorities to design micro-privatization initiatives that enhance the access of micro enterprises to government contracts. They would in turn issue guidelines on how affirmative procurement policy of the government would be implemented. In addition, it would be the duty of local authorities to supply services such as sanitation, water, electricity, paths (for cycles, pedestrians), lanes and roads.

The central government, mainly through the parastatals, would provide BDS including training technology support (KIRDI), quality and standards (KEBS), as well as enhance access to credit and finance. The central government would also ensure an enabling environment by designing micro-enterprise-friendly regulations and laws. Such an environment should be designed to encourage the formalization of micro enterprises by designing laws and regulations that lower the costs of formalization in terms of fees, taxes, labour standards, etc. The central government and private sector would mainly deal with issues such as supply of infrastructure, MSEs access to contracts, export markets, credit and finance, technology, quality, standards, exhibitions and trade fairs and market information.

It is perhaps at the micro-enterprise level where the role of MSE associations would be most critical. MSE associations would ensure that micro enterprises access services and compete at levels beyond their singular capacity. They would play an effective role in providing market information as well as acting as agents for advocacy and lobbying. Associations would also benefit the micro-enterprises in the following ways:

(1) Private interest governance - disseminating and enforcing a stock of common quality, standards, rules and norms;

(2) Organizing fairs and exhibitions for micro-enterprises;

(3) Enhancing self-esteem and collective confidence;

(4) Improving micro-enterprises' ability to bargain and combat injustice through collective action;

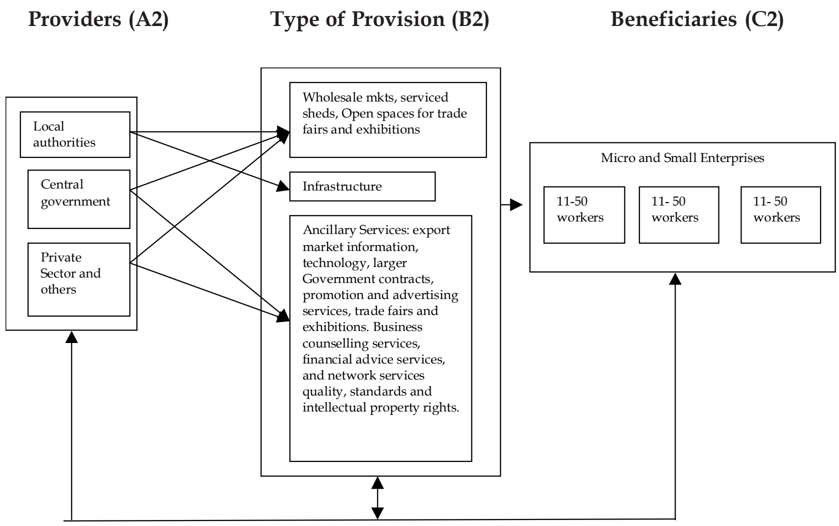
(5) Demanding access to government and other powerful officials; and,

(6) Functioning as channels through which local producers seek to acquire crucial tacit knowledge for local adaptation, either directly or indirectly.

### *Framework for small enterprises*

Enterprises in this category have potential to grow and graduate into medium and large enterprises. Most of them are more likely to be growth-oriented, and seeking larger shares in local, regional and global markets as well as diversifying their operations. Their main challenges are accessing factors that enhance their competitiveness (column B2). They would benefit most from export market information, technology, larger government contracts, promotion and advertising services, trade fairs and exhibitions. They also require business counselling services, financial advice services, and network services. They pay particular attention to quality, standards and may appreciate the role of intellectual property rights.

**Figure 6: Proposed framework for small enterprises**



## 6. Conclusion

This study is based on the premise that the traditional approach to the provision of markets and marketing services for MSEs in Kenya has been either inadequate or ineffective. This explains why one of the most critical binding constraints on MSE growth is lack of access to markets, lack of market information and poor market research. Additional marketing constraints include limited access to physical markets and marketing channels, limited access to the public sector market, incomplete market information, lack of product diversity and low quality products, lack of accessible and affordable financing, weak promotional capacity, stiff competition, and lack of marketing institutional support, shallow sub-contracting markets, and narrow product range.

Given the weaknesses of the traditional framework, the study proposes a new (theoretical) framework on the basis of best practices from other countries and theoretical reviews of the literature. This was done at two levels. First, at the national level, it has proposed a framework with a singular coordinating institution at the apex. Within this institution, there would be two sub-committees (Markets and Marketing, and Monitoring and Evaluation). These sub-committees would deal with issues of policy, laws and regulations and monitoring and evaluation. These would define the framework for supply of markets and provision of marketing services and identify the roles and responsibilities of the MSEs. At the second level, the study has developed size-specific models that appreciate the fact that the MSE sector in Kenya is vast and differentiated, with the various enterprise types having hierarchical needs.

It is important to note that these proposed changes would equally require changes in the legal and regulatory environment (both of which require time) and would involve costs (both financial and otherwise). Thus, it is a presumption that the proposed National Council on Small Enterprise would be established as provided for in the Sessional Paper No. 2 of 2005

(Government of Kenya, 2005). It is also assumed that supporting markets for products and services would be deepened simultaneously with changes following the operationalization of the model.

Since the proposed framework is basically theoretical in its current form, it may not necessarily be agreeable to all the stakeholders. However, it provides the starting point in the development of an empirically workable framework. Notably, one of the key outputs of the framework that has been developed by this study is to initiate policy debate. In addition, the study would provide the basis for developing survey instruments that would be used to field-test the theoretical framework. Survey results would enable the refinement of the framework, share the new version with stakeholders and, thereafter, evolve a more realistic empirical framework that would be marketed to MSE associations as a strategy of enhancing their negotiation, lobbying and bargaining capacity. This capacity is key in ensuring the implementation of MSE marketing policies as presented in government policy documents.

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# Appendix : Laws and Regulations Affecting MSEs marketing

| Legislation | Content with respect to MSE activities | Deficiencies pertaining to MSE activities |
|---|---|---|
| The Trade Licensing Act Cap 497[16] | Key Act that governs licensing in the country | • Unilateral issuance of trade licences by various agencies with divergent objectives<br>• Cumbersome and inefficient licensing procedures, which have made the Act expensive to comply with<br>• Validity of licence is for a short period leading to repeat exercise<br>• Lack of a harmonized approach in implementation relevant by-laws under the Local Government Act, which impacts negatively on efficiency of business operations |
| The Local Government Act Cap 265[17] | Establishment of local authorities and defines their functions that include charging licensing fees for business registration or services rendered | • Too much power is vested in the local authorities that may inhibit trade expansion as regulations ignore the costs of such regulation<br>• Stakeholders, including MSEs, are rarely involved in the formulation of by-laws yet they bear the brunt of such legislation<br>• Most of the regulations ignore the vulnerabilities of MSEs. This leads to regulations that exceed the problem they are targeting—resulting in over-regulation for MSEs<br>• Most regulations are based on any goal. In addition, they are rarely monitored to assess progress<br>• Most LAs are limited by weak enforcement capacity. They lack specific skills, for instance, those related to laboratory tests, environmental impact assessments, and so on |

[16] Revoked in 2005/06 budget

[17] The Act is currently under review

| Legislation | Content with respect to MSE activities | Deficiencies pertaining to MSE activities |
|---|---|---|
| Kenya Bureau of Standards Act, Cap 496 of 1974 | Establishes the Kenya Bureau of Standards (KEBS) with an aim of promoting quality and standards for locally-manufactured goods, and enables KEBS to address issues pertaining to standardization, quality assurance, metrology and testing | • KEBS mostly deals with larger firms other than small firms and, therefore, it is difficult for MSEs to access their services |
| Trade Descriptions Act, Cap 505 of 1979 | Deals with legal issues on pre-packed goods, services, accommodation and facilities provided in the course of trade, false or misleading indications on prices of goods. Information relating to goods should be marked on the packages | • Most MSEs produce low cost sub-standard goods that are not labelled and hence they cannot compete with larger firms who meet these conditions |
| Industrial Property Act, Cap 509 | The Act established the Kenya Industrial Property Office (KIPO) in 1990. Among others, the main functions of the Institute include; (1) examining applications and granting industrial property rights, including patents, industrial designs and utility models; (2) Screening technology transfer agreements and licences; (3) Disseminating patent information to the public; (4) Promoting inventiveness and innovation; (5) instituting infringement proceedings in relation to industrial property rights; and (6) Registering and renewing trade marks and service marks<br><br>Intellectual property has the potential to assists MSEs in every aspect of business development and competitive strategy, spanning from product development to product design, from service delivery to marketing and from raising financial resources to exporting or expanding the business abroad through licensing or franchising | • Most MSEs do not understand the meaning and the usefulness of intellectual property rights for business competitiveness<br>• Patent information is poorly disseminated<br>• Fees charged by KIPO for their services do not correspond to the finciancial ability of MSEs |

| Legislation | Content with respect to MSE activities | Deficiencies pertaining to MSE activities |
|---|---|---|
| Science and Technology Act, Cap 250 | Established the National Council on Science and Technology (NCST), Kenya Agricultural Research Institute (KARI); Kenya Medical Research Institute (KEMRI); Kenya Trypanosomiasis Research Institute (KETRI); Kenya Forestry Research Institute (KEFRI); and Kenya Industrial Research and Development Institute (KIRDI). These institutions should spearhead product development, product testing for quality assurance of MSEs | • Although the NCST was established to assess and advise on the adequacy of scientific and technological research and development carried out in the country, it mainly engages in research for its own sake and its links with MSEs are extremely weak. Very little marketing or commercialization of the research output is done, and small enterprises have limited access to information on the research carried out. Access is also limited by its location in Nairobi |
| Chief's Authority Act | The Act gives Chiefs extensive powers to regulate and prohibit the use of land and also to give authority to small traders to run business. Chiefs and Assistant Chiefs allocate public land and road reserves to informal businesses | • The powers of Chiefs and Assistant Chiefs are usually in conflict with Physical Planning legislation and the Local Authorities Act. These conflicts increase the transaction costs for MSEs and make their security of tenure over work sites very fragile |
| Societies Act, Cap 108 | Allows the establishment of societies (clubs, partnerships, company, welfare or trade associations. Some associations are directly involved in marketing support for MSEs | • The limitation with societies is that they cannot sue directly but only through its trustees—limiting their legal flexibility to operate.<br>• Most MSE associations appear weak to provide any tangible services to their members |
| Cooperative Societies Act, Cap 490 | The Act governs the formation, operation and organization of cooperative societies | • Most cooperative societies are able to mobilize a large section of traders, especially in agriculture. Such membership strength became attractive for political predators. Such political figures are responsible for instabilities in the performance of most cooperatives today |

*Sources: Nyangito, Ronge & Ihiga (2003); Moyi (2005); Moyi and Njiraini (2005)*

## Related KIPPRA Publications

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**Training Manuals for MSEs Capacity Building Programme**

Core capacity building programme

Guidelines on policy analysis and formulation —Course Book and Trainer's Guide

Micro and small enterprises development—Course Book and Trainer's Guide

Research methodology and communication —Course Book and Trainer's Guide

Micro and small enterprise programme management —Course Book and Trainer's Guide

Monitoring and evaluation of micro and small enterprises policies — Course Book and Trainer's Guide