International Business Review xxx (2012) xxx–xxx

Contents lists available at SciVerse ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

How do small firms possibly survive? A comparison study of marketing skills and logistics infrastructure of small and large wholesalers☆

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ARTICLE INFO

Article history:
Received 3 August 2011
Received in revised form 10 August 2012
Accepted 16 October 2012
Available online xxx

Keywords:
Japan
Logistics
Marketing skills
Small and large wholesalers

ABSTRACT

Most wholesalers are small family-owned firms that frequently lack marketing skills and an infrastructure capable of setting into practice state-of-the-art marketing distribution systems. They are much more consumed with daily activities and credit and collection functions than they are with developing marketing skills and logistics networks. The purpose of this exploratory study is to identify the elements of marketing skills and logistics that are associated with the performance of small and large wholesalers, and to compare and contrast these variables. Data were collected from 4500 small and large wholesalers in Hyogo and Osaka prefectures in Japan. Multiple regression analysis of this study found that the factors of supplier's financial assistance and buyer's services to wholesalers explained the performance of small wholesalers, and the factors of supplier's service to wholesalers and buyer's service to wholesalers explained the performance of large wholesalers. Multivariate analysis of variance and multiple discriminant analysis revealed that large and small wholesalers differed with respect to supplier's services to wholesalers, the supplier's financial assistance, and the wholesaler's intra logistics activities. Implications are discussed.

1. Introduction

Most wholesalers are small family-owned firms that frequently lack marketing skills and an infrastructure capable of setting into practice state-of-the-art marketing distribution systems. They are not forceful marketers because of their size, their capital, their know-how, and their traditional outlook. In fact, they are much more consumed with daily activities and credit and collection functions than they are with developing marketing skills. They have a myopic vision as they do not plan and forecast sales, and do not analyze opportunities, threats, and trends (Rawwas, Konishi, Kamise, & Al-Khatib, 2008). Marketing for most small wholesalers is equivalent to selling; the emphasis is on transformation of inventory into cash, on generation of sales volume, on short-run answers, on the complications of individual customers, and on the significance of daily routine. A large body of literature suggests that the lack of marketing skills for many small wholesalers has hindered their growth and placed them at both organizational and economic disadvantage with large ones whose economies of scale are massive (Heady, Maples, & Greco, 2005).

The second area of growing concern for small wholesalers is their economic disadvantage in operating efficient logistics systems. Large wholesalers, using state-of-the-art logistics facilities, integrating fleet and routing systems and applying

☆ The authors would like to thank Professor Kazuhiko Konishi of Otemon Gakuin University, Japan for data collection.
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http://dx.doi.org/10.1016/j.ibusrev.2012.10.003

contemporary supply chain management practices, can decrease their ordering and carrying costs to about 15% of total sales (Operations Management Roundtable, 2001). Considering only the cost savings achieved from improving their distribution systems, including scheduling and routing costs, these companies average savings from 20 to 30% of the total cost of transportation of goods (Operations Management Roundtable, 2001). Owners of most small businesses realize that as the big companies get bigger they are falling further and further behind as the effects of "economies of scale" set in (Heady et al., 2005). So, if small wholesalers lack marketing skills and logistics infrastructure, how can they possibly survive?

There are several theories that may answer this question. The theory of duality argues that small firms provide different economic function than their larger counterparts and therefore do not directly compete with them (Audretsch, 1995; Audretsch, Prince, & Thurik, 1999). The theory of strategic niches adds that by strategically occupying a market niche, small firms can avoid directly competing with their larger counterparts (Caves and Porter, 1977; Porter, 1979). The concept of dynamic complementary further explains that small firms potentially have greater flexibility and closeness to the customer, though lacking economies of scale, scope, and learning (Nooteboom, 1994). The interpretation is that small firms may have the edge on customizing their services and goods by concentrating on low-volume niche markets and may seek out less important markets to avoid confrontation with their larger counterparts.

Porter (1979) and Caves and Porter (1977) suggest that the activities of large and small firms may differ within the same industry and are not homogeneous. According to the theory of strategic niches, small firms may exhibit good levels of profitability by occupying less important product niches that are inaccessible or not lucrative to their larger counterparts. Small firms may produce goods or services that are distinct from those manufactured by large firms. Porter (1979) and Acs and Audretsch (1990) suggest that such differences permit smaller firms to seek out and maintain distinct product niches which may enable them to experience reasonable rates of profitability for prolonged periods of time. The purpose of this exploratory study, therefore, is to achieve twofold objectives: first, to identify some of the marketing skills and logistics factors that are associated with the enhancement of the performance of small and large wholesalers. Second, to compare and contrast identified factors of both small and large wholesalers.

The rest of the paper is organized in this fashion. In the next section, the conceptual background and the theoretical basis are described. Drawing upon prior research in strategy, supply chain and marketing, relationships are hypothesized. The next section describes the methodology and empirical analysis. The final section concludes with a discussion of the implications key results from the analysis, limitations and directions for further research.

2. Literature review and hypotheses development

When channel members work efficiently with each other, the planning process and delivery of goods and services to end customers is less costly, more accurate, and punctual (Wisner et al., 2005). Supply chain management principles contend that any sub-optimization would only transfer costs and additional waiting time along the supply chain, ultimately leading to lower performance of all channel members. Factors of effective performance for small and large wholesalers can be divided into marketing skills: the development of relationships and services, and logistics: the physical movement of goods (Laurent, 1996, p. 145). The first type of factors is considered as marketing skills because wholesalers attempt to build successful and trusting relationships with suppliers and buyers. The second type of factors focuses on the introduction of new systems of logistics to meet the changing distribution needs of channel members (Sheth & Parvatiyar, 1992, p. 75), and help channel members respond with agility to unexpected logistical demands (Maltz & Maltz, 1998).

2.1. *Marketing skills: development of relationships and services*

Feasibility of wholesalers is enhanced when they improve their marketing skills' capabilities because this practice helps in laying the foundation of the vision of the firm. It is shaped by several characteristics of marketing skills including communication, loyalty, trust (Cullen, Johnson, & Sakano, 2000), commitment to channel members (Cutts, 1992), assistance programs (Rawwas, Vitell, & Barnes, 1997), and power brands and assortments (Celly & Frazier, 1996).

2.2. *Communication*

The ability to pass information quickly throughout the marketing channel provide the supplier with a tool to constantly analyze the market and manage forecasts in case of changes in demand; thus, avoiding costly over production or the introduction of unneeded products (Wisner, Leong, & Tan, 2005). Small and large wholesalers may go through three stages of communication to pass such information and achieve successful outcomes. Small firms, in the first stage, make initial personal contact and exchange information to gain better understanding of the know-how of the large firms. Later, small firms exchange more in-depth information and utilize acquired technology to develop new products. Finally, small and large firms collaborate to produce jointly goods and services (Kienzle & Shadur, 1997).

Consequently, large and small firms collaborate to work on a single forecast, incorporating knowledge of customer profiles and needs, base sales, product introductions, product malfunctions and service, and customer complaints. It is possible to match customer needs with manufacturer production plans and with new product development, thus ensuring well-organized replenishment. Research has found that efficient and prompt communications influence and boost the level of performance of channel members (Mohr & Nevin, 1990).

Please cite this article in press as: Rawwas, M. Y. A., & Iyer, K. N. S. How do small firms possibly survive? A comparison study of marketing skills and logistics infrastructure of small and large wholesalers. *International Business Review* (2012), http://dx.doi.org/10.1016/j.ibusrev.2012.10.003