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2014

https://hdl.handle.net/10539/25175

Mapila, K., Chiliya, N., & Chiliya, W. (2014). An Exploratory Study on the Marketing Strategies Adopted by Small Micro and Medium Enterprises in Johannesburg Central Business District. Mediterranean Journal of Social Sciences, 5(25), 118-127

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An Exploratory Study on the Marketing Strategies Adopted by Small Micro and Medium Enterprises in Johannesburg Central Business District

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Doi:10.5901/mjss.2014.v5n25p118

Abstract

Over the years marketing theory development has been limited and small enterprises often have to rely on marketing models used in big businesses. There are a number of marketing strategies that are currently applied by large companies in South Africa which cannot be implemented by small retailers. This is because of the complexity of some of the marketing strategies alluded above are not suited to small retailers because of their limited educational background and resources. Facing the problem of intense competition, SMME entrepreneurs often have to rely on price and other short term strategies to market and sell their products to the ultimate consumer. Entrepreneurs are constantly faced with challenges that restrict their productivity and economic potential. SMMEs face the challenge of marketing their products and services properly to the right markets in order to get returns from their investments. The data for the study was collected by means of interviews. The study used a judgemental sampling. Findings from the study prove that entrepreneurs rely on word of mouth, reducing prices and other low cost promotional strategies for marketing and sale purposes. The findings indicate that it might be useful for SMME's to change their promotional strategies to suit the South African consumer market to ensure long term profitability.

Keywords: *Marketing Strategy; Small, micro and medium enterprises; Entrepreneurship*

1. Introduction

Over the past years, marketing theory development has been limited and small enterprises often have to rely on marketing models used in big businesses (Simpson, Padmore, Taylor &Frecknall-Hughes, 2006). There are a number of marketing strategies that are currently applied by large companies in South Africa such as Product Life Cycle (PLC), Porters five forces, Boston Consulting Group Matrix, McCarthy 4 Ps, Bonmann Competitive strategy and Ansoff amongst others. The existence of numerous models of marketing strategies renders it difficult for small retailers to implement the marketing strategies within their business. Weidner, Rosa &Viswanathan (2010:4) argue that the complexity of some of the marketing strategies alluded above are not suited to small retailers because of their limited educational background.

In South Africa, SMMEs are seen as a vehicle for a number of strategies such as addressing the problem of high unemployment levels. Labour Force data shows that about 70 percent of private employment is in firms with fewer than 50 workers (Stokes, 2000). In addition, smaller firms account for a disproportionate share of gross job creation with almost 80 percent of all new jobs being created in firms with fewer than 50 workers (SBP, 2011). SMMEs play a significant role in the South African economy. SMME's stimulate domestic competition by creating market niches in area in which these SMMEs operate. SMMEs also serve as a tool of redressing the inequalities inherited from the apartheid period which restricted ownership of economic resources and also restricted career opportunities for black individuals. SMMEs also contribute to the black economic empowerment initiatives because majority of SMMEs are reported to be initiated, owned or controlled by members of society who were discriminated against in South Africa's past.

In the post the apartheid period, there has seen a major increase in small enterprises around Johannesburg. The increase can be attributed to immigrant entrepreneurship as the country's new residents have been forced to make a living by starting up small businesses. African immigrant entrepreneurship is fast becoming a progressively part of discourses concerning African immigration to South Africa (Ojong, 2005). It is with no doubt that the SMMEs in the Johannesburg area play an important role in the South African economy in terms of contributions to economic growth and job creation (Brink, Cant & Lighthelm, 2003).

More than ever, small informal retail outlets in developing countries, such as South Africa, face major challenges in ensuring their sustainability and future growth. The copycat mentality of owners of small informal enterprises to establish identical businesses, selling identical products – often in the same vicinity – is one of their major weaknesses (Du Plooy, de Jager & Van Zyl, 2012). The increasing threat of competition from the expansion of large supermarkets and malls in established and township areas presents another challenge to these enterprises. Customers who supported small shops in South African townships in the past, mainly due to their convenient location and products offered in small quantities, are now more willing to travel to large stores that offer a wider variety of products at a better price to satisfy their demands, and they are more capable of travelling (Chiliya, Herbst & Robert-Lombard, 2009; Ligthelm 2005).

Brink, Cant & Lighthelm (2003) highlighted the prominent problems that influence SMMEs success in the environment to be the state of the economy, compliance with legislation, resource scarcity, HIV/Aids, crime and corruption and continuous change in technology. Brink *et.al.* (2003) further revealed that marketing factors such as poor location, inability to conduct marketing research, misreading the market, poor products and services and misreading customer needs and trends ultimately impact the success of SMMEs.

Johannesburg is a large city and according to Manyi (2010), SMMEs in large cities tend to face the problem of high competition and businesses rely on the price to gain competitive advantage. Manyi (2010) further highlighted that most SMMEs use word of mouth as their method of product awareness and marketing to spread the message and develop customer recommendations. Manyi(2010); Stokes (2000) acknowledge that such recommendations may come from customers, suppliers or other referral groups. Advertising by word of mouth is often slow to spread. Word of mouth does not reach a wider audience and which makes it self-limiting: reliance on networks of informal communications restricts organisational growth to the limits of those networks. Word of mouth is also non-measureable which leaves marketers unable to track the amount of business generated by word of mouth marketing (Stokes, 2000).

1.1 Research Problem

Although there is evidence of the importance of SMMEs, there is a lack of knowledge that relates the perceptions of the marketing challenges faced by small business entrepreneurs in South Africa with regards to the implementation of marketing strategies. Studies done by Chiliya *et al* (2009) and Cant and Brink (1999)focused on SMMEs in the townships. This paper brings in a different environmental dimension by focusing on SMMEs operating in the central business district of Johannesburg. Furthermore academic research appears to be unable to resolve a number of questions about small businesses and their relationship with and the use of marketing strategies (Simpson*et.al*., 2006). Hence this study tries to fill this gap. This will be done by investigating the marketing strategies that are already in place and strategies that need to be implemented where they are due in order to help the small businesses grow. The following research questions were formulated.

- Are small business entrepreneurs in Johannesburg Central Business District aware of the marketing strategies?;
- Do the SMMEs have any knowledge of sound marketing practices?
- Do SMMEs entrepreneurs see the value for implementing marketing strategies in their businesses?
- What marketing strategies are already in place if any are used by the SMMEs in the Johannesburg Central Business District?

1.2 Objectives of the study

The following objectives were formulated:

- To investigate the different marketing practices used by SMME's in the Johannesburg Central Business District; and
- To identify specific aspects of the South African SMMEs marketing practices and the value SMME's owners perceive in marketing; and

- To make recommendations that can improve existing enterprises marketing strategies

2. Methodology

In order to gain an in-depth understanding of the marketing strategies implemented by entrepreneurs' interviews were conducted with 20 SMME's entrepreneurs in the Johannesburg Central District. The entrepreneurs had business interests in clothing stores, hair salons, restaurants and food stores as well as internet cafes and IT stores. An exploratory research design was appropriate for this study. Exploratory research is conducted in a field of research where there are very few studies from which the researcher can infer information. The objective of exploratory research is to provide insights and understanding. Moreover, in exploratory research the information needed is only loosely defined, the research process is flexible and the sample is relatively small (Rofianto, 2008). For the purpose of this study, a non-probability judgement sample of 20 entrepreneurs from the Johannesburg CBD was used. Semi-structured interviews were conducted with the entrepreneurs. Semi- structured interviews are used to collect qualitative data by setting up a situation that allows a respondent the time and scope to talk about their opinions on a particular subject. Pattern coding was used to analyse the data that was collected.

3. Findings

The section below explains the findings of the study.

3.1 Demographic findings

The first step in attempting to understand and explore the marketing strategies that entrepreneurs in managing small businesses is to find out the demographic characteristics of the participants. Although operating in the same environment, differences exist in needs and factors influencing male and female entrepreneurs, age of the entrepreneur and stage of the business life cycle and need to be accounted for (Vuuren & Groenewald, 2007).

Table 1: Gender of the respondents

Gender	Number (N=20)	Percentage (%)
Male	13	65%
Female	7	35%

Gender impacts business growth and South Africa is no exception, with men being twice as likely as women to be new enterprise entrepreneurs and one and half time more likely to be owner managers of established businesses (Van Scheers, 2011). The gender breakdown in the table is consistent with literature on entrepreneurship which Mathibe& Van Zyl (2011); Brijlal, Naicker& Peters (2013) maintain that the majority of businesses are run by single, young male entrepreneurs who work long weekly hours. The majority of small business owners are males which contradicts Mathibe& Van Zyl (2011)observation that many business support programmes in place mostly support and empower female entrepreneurs.Brijlal *et al.,* (2013) argue that businesses traditionally started by female entrepreneurs (retail and service) may very well influence the lack of (or slower growth) and the smallness of the businesses. The most important reasons for the slower growth of women-owned businesses as identified by Brijlal *et al.,* (2013) is that women encounter social structures in work, family, and social life that influence the development of human and social capital different from their male counterparts. Van Scheers (2011) notes that female business owners are most likely to employ less people compared to male owners).

Table 2: Age of the participants

Age group	Number of responses
19-24	4
25-29	6
30-34	6
35-39	3
40-44	1

45 and above	0

The age breakdown is indicative of a relative young workforce. As indicated in the table 2 above, age groups 25- 29 and 30- 34 had more participants. Van Scheers (2011) indicates that most successful business owners fall in the age group 30 to 39 years. Only 20% of the participants in this study fall into this age bracket.

Table 3 below demonstrates the number of years entrepreneurs have beenin businesses.

Table 3: Number of years the entrepreneur hasbeen operating the business

Number of years in business	Number of Responses
1-3	12
4-6	6
7-9	2
10 and above	0

The age of a business reflects its market experience and affects its ability to grow and move to the next size class (Van Scheers, 2011). Many SMMEs fail at the infancy stage and some fail a few years after start-up. It is estimated that 50 percent of all start-ups fail in their first year, while 75 percent fail within the first three to five years (Brijlal *et al.,* 2013). This phenomenon explains why only 2 enterprises as in indicated table 3 above have been business for more than 6 years. This only accounts for 10% of the participants while 60% are still in the 1-3 critical years of survival. These findings reflect a relative high survival rate for the micro small business sector in the Johannesburg central district area. This is an encouraging finding against the backdrop of the high unemployment rate in South Africa.

The type of business which the entrepreneur operates affects their exposure and contact with certain obstacles, therefore it is imperative to note the types of businesses owned by the participants in the research sample. The table 4 below illustrates the nature of the businesses owned by the participants.

Table 4: Types of businesses operated by entrepreneurs

Type of business	Number of employees
IT, sweet shop and Laundromat	4
Driving school	3
Jewellery and book shop	3
Internet café	1
IT shop	11
Food store	5
Hair salon 1	3
Hair Salon and clothing shop	7
Internet café	3
Barbershop, sweets and phone shop	1
Hair piece and accessory shop	3
Clothing shop	4
Computer shop	5
Clothing, t-shirt business	0
Nails salon	1
Clothing shop	4
Food/ convenient store	1
Stationary shop	2
Clothing, t-shirt business	0
Clothing shop	4

It is clear that the majority of the businesses in the informal economy are small in size, micro and survivalist in nature with no or very few employees. These findings are consistent with literature that shows that SMMEs in the informal sector are characterized by very low costs of labour (Gerxhani, 2009). Low labour costs combined with the advantage of not bearing any bureaucratic costs are thought to contribute to a higher productivity of capital in this sector(Gerxhani, 2009). Only one entrepreneur participant has over 10 employees working for their business.

3.2 Segmentation, Targeting and Positioning of the Business (STP)

A proper evaluation of the STP process helps the entrepreneur focus their products or services on appropriate buyer groups (Stokes, 2000). Findings from the research prove that majority of entrepreneurs, accounting for 55% of the participants, do not have a specific niche that they market their product to but surprisingly 65% of the participants segment their markets. Niche marketing is important so that entrepreneurs are in a position to cater for the needs of those niches (Chiliya*et.al*, 2009) .A total of 75 % of the participants indicted that their business offer different pricing, products or marketing messages to different segments. The study revealed that entrepreneurs segment consumers using different segmentation methods and findings show that the most used elements when it comes to segmenting the market are: behavioural and demographic segmentation.

Entrepreneurs segment their markets according to income and product usage rate. The entrepreneurs in the study give preferential treatment, good service and product delivery to customers that are loyal to their business. Some of the participants said they offer their products to the general public meaning they do not need to segment their markets. Participants do however, target their markets and know who to target and how to retain their market share. Participants use various methods and strategies to retain their target market. It seems that most entrepreneurs really value customer relationship and use it to retain market share. This is what some of the participant's strategies:

1) Being friendly and nice to your customers
   - *"Just being nice to them. Sometimes you understand what they need and if they are not financially right"*
   - *"Our staff are always friendly. We smile and laugh with customers"*
2) By communicating
   - *"By communicating to my customers in a proper manner and making them feel happy"*
   - *"From time to time we check up how customers are doing with their product via sms, telephone and emails. We communicate with them every month to check if they are still happy with their product"*
3) Making an effort to know customers personally
   - *"By taking their contact numbers and memorising their names"*
4) Ensuring customer satisfaction
   - *"Good language. Good communication. You listen to the customer's request and go out of your way to satisfy customers."*
   - *"Good service "*
5) Promotions, discounts and free services
   - *"I give them free hairstyles"*
   - *"I try to give them discounts in everything they buy"*

The marketing concept puts the customer first: as entrepreneurs' most important goal, satisfying the customer must be the goal of everyone in the business (Collins, 2008). Entrepreneurs according to Collins are achieving the most important goal in running any small business, which is, taking care of the customer and their needs. Entrepreneurs in the Johannesburg central district area are consistent with Carson *et.al*(1998) findings that indicate that SMME's owners recognise that building relationships are vital to the company's success and they invest time and effort in maintaining good relations with customers. The current strategies used by the participants work to increase target markets and helps the entrepreneur position themselves as businesses that offer good quality products/services at reasonable prices. The strategies also help entrepreneurs position themselves as caring and always put customer's needs first.Since most owners are actively involved in their respective businesses, it is clear that an improvement in the way they treat their customers will benefit their business success tremendously (Neneh, 2012).

3.3 Marketing mix

This section presents findings on how SMME entrepreneurs implement the marketing mix strategy into their business.

3.3.1 Price

This section explores the different pricing methods employed by entrepreneurs and the quality of these methods.
The findings of this study prove that entrepreneurs use different pricing methods namely:

1) Supplier price
   - *"when you buy cigarette from the tobacco company, they normally give you prices to use.so it's not like we*

come up with our own prices"

- *"There's a standard that we follow from our retailers"*
- *"Related to the industry as well"*

2) Price over costs (Cost plus)
   - *"It depends on how much the product is from the people we bought it from"*
   - *"It depends on the exchange rate "*
   - *"I charge according to the way I buy and the way other local markets sell"*
3) Set their own price
   - *"We haven't developed a price strategy but we make sure that whatever we do we get profit out of it"*
   - *"I use this price mechanism I charge prices by looking at faces"*
4) Compare with competition
   - *"I compare my own price with other people's salons and I put my own prices"*
   - *"The pricing strategy is a lot, can be competitor strategy, marketing strategy, societal strategy. There's a lot you can use"*

These different methods are in line with different pricing theorists' views on pricing. Carson *et.al.,* (1998) postulates that a manager should endeavour to establish customers' perceptions of the product, he/she should be aware of competitors' actions (at the very least their pricing level) and know how much the product costs and hence the margin of profit it will afford at different prices" In the research, cost price method dominates and most participants stated that they set their prices to cover up for costs incurred so they can have a strong revenue growth.

Table 5: Number of participants who offer discounts, credit and lower their prices

	Number of Participants N=20	
	Yes	**No**
Offer discounts	17	3
Offer credit	10	10
Is business reaching full economic potential?	13	7

As indicated in table 5 most participants do not have a specific percentage to indicate how much discount they offer to customers. What most of the participants indicated was that it depends on the amount of products that customers buy or the amount of money the customers spend on buying that will determine how much discount to be granted to the customer.

The findings in table 5 above also show that even though majority of entrepreneurs implement different strategies to increase sales and retain customers, they still don't make enough profit that allows their business to reach its full economic potential. A total of 65% of the participants revealed that their business is reaching its full economic potential due to various reasons. Some of those reasons include:

1) Limitation of resources
   - *"Not yet, I'm still limited to a lot of resources."*
2) Seasonality
   - *"It's not. Because of the seasonality"*
3) Competition
   - *"Competition is high and this is a seasonal business, in winter things are slow."*
4) Price inconsistency
   - *"No. I'm not consistent in terms of my prices."*
5) Expenses
   - *Not really because always rent is expensive"*

3.3.2 Product

Participants in this study believe that they are selling products that consumers need is fundamental to the survival of their business. This is a very important fact to the business owner as it helps the business to understand their customer needs and meet those needs by offering the right products/ services.

Findings from the study prove that entrepreneurs check for stock levels during different times of the business cycle.

Some respondents check every week, *"Every day and every week. I check every day so I know what to buy at the end of the week"*. Others do not check and keep track of stock, *"but sometimes I don't do that, I just sell"*. The importance of keeping stock levels in check is to ensure that the entrepreneur will always have products in store when consumers demand them. This practice also helps them check and see that products fast moving and products that are not being bought by customers.

Most of the participants in the study believed that they were offering value for money and selling products that customers find useful. One particular participant responded *"Yes, they've been telling me that it's reasonable. The quality is good."*. Another said *"Yes, because I don't buy cheap products.* The participants perceive selling expensive products relates to offering great value for money.

3.3.3 Promotion

Product awareness is a critical part of promotion as entrepreneurs strive to make customers aware of different products and their benefits. Participants in the study concur that product promotion is beneficial for their business. This means that each of them have specific methods they use to target customers and sell new products. Some examples of the different methods include:

1) Using the internet to advertise
   - *"You can get websites and put your designs on Facebook. You can get webcam and put new designs every month"*
   - *"Posters and social networks …"*
2) Word of mouth
   - *"I've always used my mouth and some written posters"*
   - *"I stand outside and talk to customers and introduce my business to them"*
   - *"Talk to people on the streets"*
3) Posters and fliers
   - *"and I also hand out fliers and posters"*
   - *"Posters, flyers and the internet*"
4) In-store and out-store displays
   - *"Sometimes , we put our products outside and use dummies"*
   - *"Sign outside the shop"*
5) Discounts and sales
   - *"Discounting of sales"*
   - *"We have a lot of promotion but, you come and request something, we give it to you at a certain percentage."*

The different promotional strategies that entrepreneurs implement seem to work for them. Of the participants, 70% indicated that the promotional strategies they use help increase sales, consumer satisfaction and product awareness. Only 5% of the respondents indicated that promotion did not increase sales didn't and 25% of the respondents did not respond to the question. Promotional strategy effectiveness is mostly measured by customer turnover. When more customers come to buy or get service after a certain promotion strategy has been put in place, entrepreneurs are able to measure its success. Although entrepreneurs know that promoting is beneficial for their business, they also know that it comes at a cost. Some entrepreneurs spend more money than others depending on the number of people they want to reach, *"It depends, like how many fliers I want"* and depending on their of promotional strategy. When asked how much it costs to have these strategies implemented, one participant said *"20-30% of the profit"* and another indicated *"Minimal cost"* while for those who only use word of mouth indicated that it costs *"…Nothing"* since they *"only have to use their mouth"*. Word of mouth is found to be effective in increasing customers and sales so SMME owners continuously use it on the side even when they adopt new strategies. These findings are consistent with literature highlighting that small businesses rely heavily on interactive methods such as word-of-mouth marketing to spread the message and develop customer recommendations (Stokes, 2000; Chiliya *et.a.l,* 2009; Kolabi *et.al.,* 2011).

3.3.4 Place

Place is concerned with offering the products at the right place it is needed by consumers (EBS, 2004). The participants businesses are located in an area where there are lots of students, business people and a lot of taxi ranks to different

areas. A total of 70% of the respondents are located in the area because close to their suppliers and retailers, making it easy for participantsto get access to new products when they need them. This conclusion is made from some of the statements participants make like*"I can go and buy it in a day"* when asked how quick they make new products available. This means that locating your business at close range with your target market is important and also locating the business near suppliers is also very important to ensure quick delivery of products to the ultimate consumer.

3.3.5 Customer Orientation

An opportunity driven enterprise uses its resources to research and identify gaps in the market that the business can fill. The business will continuously search for consumer needs and aim to meet or exceed the demands of their customers. When asked about the methods they use to conduct market research, and tap into opportunities available to the business, the most common methods were the following:

1) By communicating with consumers and conducting consumer research before purchases
   - *"We go around asking students what they would like to see and they tell us"*
   - *"Sometimes we give students and different clients questionnaires though it doesn't happen often."*
   - *"Sometimes I ask my customers what they need. It depends on what they want".*
   - *"By asking our customers, they'll tell us what they need."*
2) Conducting research on the internet
   - *"I go to internet to check the latest products in demand and speak to suppliers"*
   - *"Through the media, mostly internet"*
   - *"Over the internet"*
3) Reacting to consumer demands when they come into the store
   - *"Sometimes they come and ask, 'don't you have this?' so we check how many people have asked for a certain product then we make it available."*
   - *"My new product is that if someone comes in and demands something, I do it for them"*
   - *"Customers come tell me what they want and if I don't have it I make sure that next time I have what they want"*
4) By copying their competitors
   - *"Yes, sometimes I enquire from the same people who are in the same business as me."*
   - *"This is a competitive environment. You go around to see what your competitors are doing and you go do the same thing".*
   - *"Basically there's competition which is out there. We have to foresee what is being demanded, what are competitors are doing and what it is that we can supply. So it's our research and then we compare, go out benchmark and find out what customers need."*

All these are the different methods SMME's use to research new product and market information while some of the respondents simply said that they do not do anything to search information and discover market opportunities.

- *"I don't research"*
- *"In relation to my business, uhm. I don't know"*
- *"No, I don't research"*

Market research and opportunity recognition is critical to SMME's success and growth. Visagie (1997) states that different markets will grow at different rates and highlights the importance for SMMEs in South Africa to accurately predict which will be the growth market for the future to survive in a changing South Africa. Keeping track of the market will help entrepreneurs grow their market and survive their business. Lack of information and the lack of management and business skills are some of the constraints identified to limit SMME's from growing (Brijbal, *et al.,* 2013).

4. Marketing implications

Although SMME owners have strategies in place, they need to be educated about other marketing approaches. This will enable entrepreneurs to have a choice in implementing strategies that best works for their business. The government can employ different SMME support programmes to help educate and assist entrepreneurs about marketing and marketing approaches. Support programmes already exist but it seems as though entrepreneurs are not aware of them or their importance. There is an importance of availing opportunities for SMME owners for continued training and development. This can help entrepreneurs stop the trend of copying their competitor's strategies and gear all SMMEs towards

understanding the strategies they use and reasons for choosing those strategies. Different workshops and conferences can be set up to further empower entrepreneurs to teach them about packaging, shop layout, competition, Price strategies etc. The success of the business workshops and training seminars will be seen by an increase in SMME growth in the country. The benefits of educating and training SMME owners will not only help entrepreneurs in the short run but will be beneficial in the long run as well. Entrepreneurs will be able to pass on their knowledge and education on marketing to their employees. This will help when those employees decide to start their own business since they will have a sound foundation of theory and training to marketing and entrepreneurship.

5. Areas of Future Research

This research paper's objective was to explore marketing strategies that SMME owners at the Johannesburg business district implement. The research paper has reached its objectives and concluded on the marketing strategies that SMME owners implement. This research opens opportunities for other topics to be researched on in the future.There are positive signs that government supported initiatives towards micro and small business enterprises in South Africa are high on the agenda. However, SMME owners continue to lack proper education and business training and do not seem to be aware of the support institutions available for them. Future research can look at the various reasons why they do not know of the opportunities the government offers to them through the support initiatives.

Future research should examine customer perception on SMMEs in the Johannesburg district area. This will help close the gap between how entrepreneurs run their businesses and the changes that consumers feel SMME owners need to implement. This research only explored marketing strategies implemented by SMMEs in the Johannesburg central business district area. Future research should investigate the appropriate strategies that SMME owners in the Johannesburg central business district area and in other parts of South Africa need to implement in order to reach their full economic potential.

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