

Role of Marketing and Business Approach on SME Development

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Abstract. Almost two decades after the war, Kosovo is an import-based consumption economy. Its weak export does not get any closer to imports, and this makes the country dependent on foreign assistance and remittances. The structure of the economy, with trade as a dominating undertaking, a sustenance-based agriculture and very limited production facilities, is a very fragile ground for economic development. Incentives to attract FDI were not competitive with neighboring countries and the country development is still lagging behind. In this respect, the lack of a proper marketing and business approach is present too. Theory and practice from developed countries show that firms that want to increase sales produce what is needed or/and wanted from costumers. In most of the market economy countries, when one wants to engage in business, the first step to start is market research; this rarely happens in Kosovo, people go in business almost ad hoc. Evidence shows that firms do neglect marketing by being mainly sales-oriented; they do produce what they think is good for the costumers and then use lots of resources to convince them that this is what they need. In general, this paper analyses the dynamics of economic development in Kosovo in post-conflict time, the government efforts to change the economic structure, its constraints with emphasis on perception of marketing and the role of consumers for SMEs in the country. In particular, the paper tries to explain why companies need to change their way of doing business; hence, it recommends the change of their business approach. The research, done with 200 small and medium enterprises (SMEs) in Kosovo, shows there are rather few firms that understand marketing and through it fight competition and strive to establish long-term relationships with their customers.

Keywords: economic development, marketing, customer care, sales oriented, market oriented, customer relationship.

1. Introduction

This research paper is divided into three parts. *The first part* gives a concentrate of the general economic factors and drivers in the present economy of Kosovo as well as a concentrated assessment of the situation and characteristics of the business environment in the country. *The second part* shortly discusses the business approach in Kosovo, the

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understanding of marketing, the way of implementation by SMEs in Kosovo. *The third part* contains the conclusions and recommendations.

2. Kosovo Economic Development and its Constrains

The uncertain political and economic situation during the post-conflict period makes it difficult to estimate economic development conditions in Kosovo. Economic development in the post-conflict Kosovo is regarded as the most important condition for peaceful progress of the new nation in line with the European Partnership, Stabilization and Association Process. Despite the fact that the Government of Kosovo as well as all its supporting international and bilateral agencies places the highest priority for creating an enabling environment and promoting economic activities at all levels and by all possible actors, those efforts did not yield the expected results. Private sector is considered as the key driver of the economic development process. During the last 5 years, economic performance in terms of GDP increase, has varied between 1,0% to 3,8% (IMF, 2016). Such a level of economic performance is not sufficient for making any impact on the socio-economic conditions in the country. Development economists claim that a GDP increase below 2,5–3,5% is basically absorbed by the economically affluent strata of the population for maintaining its standard of consumption. Changes in order to affect the living conditions of broader public with poor demographic income dimensions and the poor require a growth rate at least above 7–8%. For the time being, these rates of growth are possible taking into the consideration the considerable reforms that were undertaken and executed lately from government, but the same is expected to happen within the business sectors; businesses have to reform all the time and adapt to market changes.

Taking into the consideration that Kosovo's economy is highly dependent on the inflow of remittances from the Kosova diaspora, mainly as consumption support to their relatives, and development assistance funds from international and bilateral donors – even though the later has decreased sharply in last couple of years; on the average this inflow represents 50% of the country's GDP. Around 17 percent of Kosovars live abroad. Assuming a total population (resident and diaspora) of 2.5 million, it is estimated that the diaspora comprises about 315,000 Albanian Kosovars and 100,000 Kosovars of Serbian and other ethnicities. About 30 percent of Kosovar households have one or more members living abroad, most of whom are in Germany (39%), Switzerland (23%), Italy and Austria (6–7% each), UK and Sweden (4–5% each), USA (3.5%), France, Canada and Croatia (2% each).

According to the research done by Forum 2015, the impact and contribution of the diaspora on Kosova is significant. About 70 percent of emigrants send remittances back to Kosova, where just under a fifth of all Kosovar households receive remittances. Seventy percent of emigrants visit Kosova, increasing aggregate consumption during their stay. According to the Central Bank of Kosova, it is estimated that annual inflows from the diaspora amount to €691 million in 2016 and €665 in 2015. The result of these transactions leads to highly differentiated socioeconomic structures between those who have and the

vast majority who have not. The massive presence of expatriates is driving the inflation, particularly in urban areas, through high rentals and expenditures in the service industry, which makes the cost of living comparably high for all.

The most striking feature of the economy of Kosovo is its total dependence on import. Domestic economy continues to face disequilibrium against the foreign sector, while the added value of the production sector remains low, the increase of demand leads to further increase of imports. Export/import coverage at the end of year 2016 was 11.1% (Kosova Agency of Statistics, 2016), which is highly unsustainable and is possible only temporarily through the abovementioned remittances and the inflow of development assistance. This unsustainable situation in terms of everlasting of businesses and economy is further emphasized by the circumstance that the main export goods are scrap metals, a residual from the years of conflict, and to worsen the situation, the prices of metal have further declined over the recent years. During the time of war and a decade earlier, our economy was completely destroyed. The Kosovo market has started over in 1999 based 100% on imports, as there was no other way; in addition to that, all economic and fiscal policies were favouring trade. The economic and fiscal policies have changed in the last years and many efforts were put from the institutions to shorten the bureaucracy and improve the business environment. In this regard, the results were recognized from lots of credible institutions such as the World Bank (Doing Business, 2017), Transparency International (2016), Heritage Foundation (2016), and the business community itself.

The road infrastructure today is in a good shape and the government is continuing to invest in it. Electricity supply is still unreliable, making production unstable, unproductive, and expensive. However, telecommunication operates mainly due to mobile networks, and the internet is working.

Unemployment is very high, estimated at around 30% (Kosova Agency of Statistics, 2017). Almost 20 000–25 000 new jobseekers enter the labor market every year, with very small chances to find a job. There is a huge difference between what the universities are producing and what the labor markets are demanding. Obviously, the young people represent a potential, but without meaningful jobs for long time, they can also become the biggest threat to the political and social stability of the country.

Until now, Foreign Direct Investments (FDI) has been minimal in the production sector. The existing FDI inflow has been partially a result of the privatization process; there are a few large companies that have been acquired by foreign investors and investments in the financial sector, particularly the banking system. Some investments are generated in the construction industry by investments in housing and office buildings.

Today's Kosovo business community is undeveloped and facing serious problems and challenges for its future and survival in a globalised economy with its past situation leading to present an unstable format.

The definition of the private business sector is difficult. The informal business sector is estimated to account 30–35% of the GDP, which is generally an unusually high proportion of an economy. The number of registered businesses varies depending on different estimates but approximately there are around 154.000 entities registered in the country. The number

of new officially registered businesses has marked a high growth trend in the recent years, increasing the level of entrepreneurship and interest to make a living on businesses. Out of these 154.000 registered businesses, less than two thirds are regarded as “active” in the meaning that they are performing some kind of fiscal duties, such as customs or taxes. Other businesses are dormant or despite registration acting in the informal sector.

The majority of the businesses are part of the trade sector, which constitute around half of the total numbers. Around 10% is estimated to operate in the field of services, and the rest are construction and production units. Most agricultural undertakings are self-sustenance based with a very few organized businesses with market activities.

As mentioned above, Kosovo is today an import-based consumption economy. Most trading business is based on import, including the everyday foodstuffs. It is an unfavourable situation when a country imports almost everything that it can itself produce. Kosovo’s main trading partners are Serbia, Germany, and Turkey (Kosova Agency, 2016).

Kosovo is part of the Central European Free Trade Agreement (CEFTA), which has been signed by the United Nation Mission in Kosovo (UNMIK) and the Provisional Institutions of Self Governance (PISG) in 2006. At the moment, it is difficult to see any major advantage for Kosovo in this agreement. Due to its weak export ability, Kosovo-based businesses are unable to gain from the non-tariff conditions of the Agreement. Exporters to Kosovo, however, are enjoying the benefits of CEFTA and represent a steady pressure on the emerging businesses of the country. In addition to that, Kosovo has signed the Stabilization and Association Agreement (SAA) with the EU in October 2015 and started its implementation as of April 2016. SAA is one of the most important trade agreement for Kosovo as well as the first contractual relationship that Kosovo has signed with the EU. In terms of economy, this agreement implies free trade agreement of Kosovo with 28 countries of the EU. It is too early to try to assess the impact that this agreement has on the SMEs, but one thing that is visible is that Kosovo SMEs are still not prepared for successful interaction with the EU market, and as a consequence of that, the imports might even go higher, at least for another two or three years.

The service sector provides for the large number of expatriates and for Kosovar, salaried largely by foreign institutions. Hotels, restaurants, and cafes are plenty, providing accommodation, food, and beverage. However, there are obvious business risks involved due to the potential withdrawal of foreign personnel and institutions. There is a hope put on the ICT sector and business process outsourcing services of form foreign companies to their clientele outside Kosovo, thanks to the young and skilled population that Kosovo is blessed with. Production is concentrated on food and beverage processing, some metal, wood-working, and construction. In agriculture and forestry, we find mainly micro-enterprises and a few small to medium sized enterprises. In agriculture, the major problems are the nonexistence of big plots of land and lack of the spirit of partnership business among those who do agriculture. The size of the businesses is extremely small. Around 98% are microenterprises with the number of employees less than 10 (Kosovo Agency of Statistics, 2016). However, most striking is that only 150 enterprises are categorized

as medium sized between 50–150 employees and less than 40 enterprises are bigger, i.e. have more than 250 employees.

Access to finance is difficult. The problems of business financing are dependent on the conditions by which credits are extended to private business. Although the interest rates have started to decline the requirements for collateral, bureaucracy remains still high, mainly because business risks are estimated to be very high. Business in Kosovo is by all means a small-scale economy. There are almost no companies of a size, which are able to accumulate the necessary resources for development of modern corporate business. It is challenged by efficient and large - scale production of goods from global and regional competitors. There are no protective mechanisms available or even desirable to save its emerging businesses.

Economic development is a must for the political and social survival of the sovereign Kosovo. Micro, small, and a few medium sized companies only are not sufficient to generate the necessary growth. Turning the economy around will require radical structural changes in the size of businesses, in the size of “domestic” markets, and, not the least, driving forces to stimulate growth and leverage entrepreneurship.

With all those problems, the future of the economy is not bright; there are lots a reforms in terms of government policies to be undertaken like some sort of protection measures, subsidies, and policies that attract more FDI. Businesses should not wait until such measures are taken from the government – they can do things at their own capacity as well. There are hopes and expectations placed on future drivers of the economy such as: Implementation of Marketing, a manner to change the way of doing business, it takes a completely new business approach.

3. Business Approach and Marketing of Small and Medium Enterprises in Kosovo

Taking into account that we all are consumers, marketing affects our daily lives in different ways. Apart from being consumers, many people are part of marketing process, since they have different roles in their working lives: as marketers, salespeople, trade agents, etc. Traditionally, marketing was viewed as business activity. From business point of view, marketing can be defined “as delivery of higher standard of living”. While Ph. Kotler would define modern marketing as “a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of the value with others.” As defined, marketing is all about satisfying consumer’s needs and wants, hence creating a long-lasting relationships between businesses and consumers. Marketing is about values (Steve Jobs, 1997).

But, do all business understand what is marketing and how it can help their activities? What do SMEs in Kosovo think about marketing?

A recent survey done with 200 SMEs in Kosovo shows that they do largely neglect marketing. Their business approach is old fashioned and not in a state to challenge the strong competition coming from outside. Kosovo now is part of global economy with

CEFTA, SAA; in market shelves one can find products from all over the world. Today, top agendas of developing countries are integrating processes that enable and facilitate further movement of capital and other factors of production. Beside all benefits that one country can have from a market economy and the globalization process, our companies are found in disadvantageous situation by being just formally part of the world markets. Competition is mainly coming from developed countries. Companies nowadays are operating in times of great changes in all aspects: political, technical, technological, competitive, and consumer behavior. In this quite complex business environment, marketing has a core role. Understanding Marketing would help Kosovo enterprises to become competitive, consumer- and market-oriented, produce what is desired and not sell what is produced. Most companies doing business in Kosovo are very old in their way of doing business; they do not know who their customers are, what is important for them, and what their preferences are.

The world is changing and economy is following, it is not like twenty years ago; costumers are informed better than ever, they have access to products and services all over the world, they have a chance of comparing prices and quality and they do all the time cost-benefit analysis. But do domestic companies in Kosovo realize that? The majority of the enterprises in Kosovo perceive marketing as advertising and that in most of the cases is the whole marketing activity that they perform. Where this is leading, is not difficult to be seen. Consumers do prefer products coming from outside of Kosovo, often with higher prices. Kosovo costumers do not believe in domestic products because companies are failing to talk to customers, the relationship between company and a customers is still missing. It is completely true that right after the war, attempts to produce were not successful, because of the lack of experience, old technology, and other factors. But the situation today is different; there are companies producing good products, but they still lack the link to market, lack the link to costumers.

Out of 200 interviewed enterprises, only 43% of SMEs have a marketing department within their company, which is mainly in charge of promotion and does not deal with products, services, price policies and distribution at all. This means that competition and consumers is completely ignored and all know where this leads in the business world. Another handicap of the Kosovo enterprises is that they do not segment their market properly; the majority tends to satisfy all costumers with one offer. The age of companies aiming at the mass market is coming to an end (Kotler, 2003). Around 62% of companies have not segmented the market, which means that these companies do not know who their customers are: whether they are children or elderly, poor or rich, whether they are male or female, not speaking about their behavior and life style. Without having that information, how they can satisfy their needs? Information Communication Technology is not enough in use but to some extent this might be justified by their size and small capacity. Beyond a certain level of connectivity (PC, Internet access, on-line information or marketing), not all SMEs will necessarily "catch up" with large firms, simply because e-commerce may not bring large benefits and SMEs will stay with traditional business processes (OECD, 2004, p.8).

The abovementioned SMEs have no strategy for action, but produce according to their tastes and capacities and then spend lots of resources to push sales. Consumer behavior is an almost unheard of concept, and SMEs do not see any reason why they need to study it.

In the Kosovo market, probably due to the poor economic conditions, companies complain that most consumers are price sensitive, so according to them, quality is not receiving due respect. However, one thing has not been verified, but it can be as Kotler says, purchases based on price happen when there is no difference in terms of quality between expensive and cheap products. In the country just few companies are engaged to create values and this is a concern.

In everyday life, we often hear from companies that “the customer is number one,” that the customer is a “King,” but in fact they do not understand the responsibility of what they say. Companies may think they are customer-oriented, but in practice that is hard to be seen. Such a thing was proved by the results of the research; managing director speaks often about the importance of customer orientation, however the message is not properly absorbed by low and middle-level managers, as the latter have different tasks for which they are assessed and paid. There are many cases where just because of the ignorance of customers companies lose their markets. Also from companies that have some marketing culture there is a tendency to do activities that attract new customers by not noticing that they are losing their loyal customers. An example of this is Telecom of Kosovo; it offers different packages for new customers and forgets that old customers are there to take care of. By doing this, this company has lost lots of its loyal customers. It may sound strange, but marketing is misperceived also by so-called marketing companies, since they are not able to provide anything but promotion activities, mainly advertising. Currently, most of the businesses are sales-oriented. They do rely heavily on promotion activities to sell products/services the company wanted to make. Promotion is taking a large share of the company’s overall budget. During the research, it was noted that SMEs are using aggressive selling tactics and have short-term plans. Hence, the situation is not good; Kosovo needs more than anything to boost domestic production, create jobs and soften trade balances.

4. Conclusions and Recommendations

The business environment in Kosovo is difficult to be in. Economies of scale in production and distribution, the branding of products and modern marketing are today the pre-requisites of business undertakings in the global and regional economy. Domestic companies need to think outside their box, to see and copy best practices. A Japanese company with 40 employees, which previously recorded sales representatives’ field experience in written reports, has developed a marketing database, which allows every salesperson to access general information about customers and previous correspondence concerning their complaints (OECD, 2004, p.10). There is a need to build bridges between companies and customers; to listen customers and to shape business as per their requirements.

In order to identify customer needs, companies will have to ask themselves what goods and services their customers want and how they are going to acquire them (i.e., how much costumers are prepared and where and when they would like to buy them). But nowadays that is not even enough because we have customers that do not know how to express their needs and want companies to work on their behalf by creating a hidden demand.

SMEs in Kosovo must compile strategies for penetration in global markets, because even if they operate only within the borders of Kosovo, still the competition comes from everywhere. Customer service is a pre-requisite for both developing and maintaining lasting buyer-seller relationships (William, 1987). SMEs should align their market offerings with respect to the target segments in order to achieve higher performance. Moreover, SMEs should be aware that today consumers/customers are less willing to be persuaded and they are knowledgeable about the market and the products/services available. Competitors are successful because they identify what customers want and tailor their business towards those wants/needs (in an efficient manner). Marketing is not all about selling, there is a need for managing the 4 Ps, not just promotion. Long plans are better than short plans. SMEs should copy the best practices of successful global companies, aim not just at domestic markets, but at exporting too. There is a close relation between the global economy and global markets, the global economy is characterized as a unique market for all goods and services anywhere in the world, giving local producers the opportunity to produce and build the capacity according to global requirements.

Overall, it is about corporate culture and how the determination should be made for producing products and services. Another phenomenon that is prevailing in Kosovo's economy is domestic sector cannibalism and the loss of capital to foreign firms. Foreign firms are generating an uncompetitive business environment, which can be opposed only by the stability of SME's long-term orientations.

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