

How Does Marketing Affect the Profitability of Small Businesses in Simi Valley?

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Abstract

Marketing in small businesses is a tool that often goes unnoticed, underappreciated, and used without proper education, but is an excellent tool to increase the profitability of a business. In this study, the marketing strategies of small businesses in the city of Simi Valley were examined in order to determine the most and least successful forms of marketing. To determine which forms of marketing each business used, their owners were interviewed on the marketing choices from year to year. To determine which forms were the most successful, each owner was asked about his or her gross profits from year to year. Marketing strategies were analyzed in relation to profitability to find trends between the specific marketing strategies and profitability. This study found a shift in successful marketing strategies moving towards a technological base in most market orientations that is more profitable. This study has the potential to solve the problem of unsuccessful and uneducated marketing because small business owners can adjust their marketing to a more technology based operation.

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Introduction

Marketing in a business is the focus and management of exchange relationships, in which advertising, public relations, and promotions all fall into the realm of marketing. This means marketing serves as a relationship between the material wants and needs of society and the effects on the businesses' economic status as a result. The purpose of marketing is to isolate the target audience and create an advertisement or message to make the orientation of the product most desirable and beneficial to the given audience, persuading the target to purchase the product. The long-term goal of marketing is to create a sense of brand loyalty, causing an increase in profitability of the business down the road. Marketing has a direct effect on the profitability of businesses

For most small businesses, which are defined as private owned corporations that have fewer than one hundred employees and have less annual revenue than a normal sized business, marketing plays a significant role. In small businesses, the operation in which a product is introduced, displayed to consumers, and how it builds the business's reputation is all considered to be in the realm of marketing. As a result, profitability in small businesses is dependent on their marketing.

Marketing is a meticulous operation in which a business must first identify the largest possible demographic target and create a market orientation that is most attractive for that given demographic. In his article, "Segmenting and Targeting Your Market: Strategies and Limitations" from the Scholarly Commons of Cornell University, Michael Lynn, Professor at Cornell University, explains the importance of the Segmenting, Targeting, and Positioning

method known as the STP strategy. His explanations stated that the market as a whole is made up of homogenous peoples distinct needs and the first step is to segment groups based on their desires and target the groups which benefit you the most, while ignoring the others, and positioning your product in the most appealing way possible for those segmented groups (Lynn; 2011). This means that different segments can often have conflicting needs and desires so the business must find the largest demographic with the same wants and needs and cater to that group, because when in the process of marketing, the obvious goal is to improve your businesses profitability.

This however was an unrecognizable concept because for a long time there was no way to measure a business's profitability based on marketing until a study was conducted in 1990 that created a system to determine if a business's market orientation related to the profitability. John C. Narver, Professor Emeritus of Marketing at the University of Washington's Foster School of Business, and Stanley F. Slater, Professor of Strategic Management at the University of Colorado at Colorado Springs College of Business and Administration found in their study that market orientation is an important factor in profitability for both commodity and non-commodity businesses and they stated, "a substantial marketing orientation must be the foundation of a business's competitive advantage" (Narver & Slater; 1990). This means that in their study of 140 businesses, a common trend between the most profitable businesses was their strong foundation in market orientation. This strong foundation proved to be important because it draws in new customers with advertisements and promotions that create a brand loyalty to keep them coming back. This matters because the most profitable way to run a business in to keep your customers coming back rather than draw in new customers.

Profitability is the leading factor when determining market orientation and in most cases the way to increase profitability is through customer retention. In his article “Prescription for Cutting Costs,” from Bain and Company, a leading business management company, Fred Reichheld, researcher and New York Times Best-Selling author concluded through his research that improving customer retention can skyrocket profits at an exponential rate (Reichheld; 2001). This shows that while marketing for attracting new customers is important, more focus should be diverted to marketing that will keep customers returning. Because the goal is to keep customers satisfied, businesses must determine what the customer values in a shopping experience.

This idea was similarly argued in an article “Business Marketing: Understand What Customers Value” from the Harvard Business Review by James C. Anderson, Professor of Marketing at Northwestern University’s Kellogg School of Business, along with James A. Narus, Professor of Marketing at Wake Forest’s Babcock Graduate School of Marketing, explain how to keep a customer satisfied. In their article, Anderson and Narus explained that customer’s value a good shopping experience, trust, and utility (Anderson & Narus; 1998). This means the consumers value customer service and product value the most when purchasing products. In addition, when consumers are shopping, they remember their experience with employees. So in order to keep customers coming back, the business should make an effort to improve the consumer experience. Consumers also value product value that is often measured in utility, a measurement of customer satisfaction assigned to a product by a consumer based on brand, price, and sale. Businesses need to focus more on their strategies for market orientation in order to increase customer retention and draw in new customers.

In the small business community, marketing methods and strategies go almost unquestioned which may or may not prove to be a large unnecessary output of money without maximum return. There are many factors that contribute to successful marketing that go unnoticed and this study is researching the city's economic status as a factor to help determine the effectiveness of various marketing on gross profits.

The previous scholarship includes the generalized information on the keys for marketing, however there is no scholarship focused on the best possible market orientation for a small city. The goal of this study is to identify the most successful format for the market orientation of a small business specific to the small city model of Simi Valley.

Purpose

This study will delve into the marketing in various types of small businesses in Simi Valley to acquire a better understanding of the best form of marketing for a small business and how the consumer is being marketed in Simi Valley and other cities similar to Simi Valley.

Simi Valley is a standard small city in southern California with a population of approximately 125,000 people and an area of roughly 42 square miles (City Data; 2017). The dominant political demographic of Simi Valley belongs to the Republican Party of conservatism. In 2013, Simi Valley ranked seventh on a list of the safest cities in America (City Data; 2017). The economy in Simi Valley is on the rise ever since the depression during the later 2000's. The median household income is approximated at just under \$95,000 and the median home value is estimated at \$512,000 (SCAG; 2016). The Simi Valley sales tax is 7.25% and the average income tax is 8.00% putting both above national average. Simi Valley has an unemployment rate of 4.8%, which is well below the national average (SCAG; 2016). There are several

education options in Simi Valley, made up of twenty-one elementary schools, three middle schools, four high schools, a continuation high school, an adult school, and an independent study school (City Data; 2017). The common mode of transportation in Simi Valley is by automobile on streets, highways, or freeways. Other transportation options that are available include the bus system with convenient bus stop locations, the train which stops in Simi Valley and travels to neighboring cities, and bicycle, there are bicycle lanes on most of the main streets and a bicycle path starting on one side of the city and ending on the other with frequent exit opportunities.

The purpose of this study is to determine which forms of marketing are most successful in terms of profitability for cities that match the model of Simi Valley. A better understanding of marketing would allow business owners to adjust their marketing orientation to maximize their profitability.

Hypothesis

This study's predictions are as follows: businesses that focus their marketing in social media and technology will be the most profitable because in today's society, almost everyone has some form of social media. The majority of business owners will overspend on marketing, and more specifically on the less effective forms of marketing because they lack the proper understanding of marketing.

Methods

This study of marketing in small businesses contains a hybrid research method combining the characteristics of both qualitative and quantitative studies. The qualitative portion of this study is a set of interviews with business owners of various small businesses in Simi Valley, and the quantitative portion of this study is the analyzation of the gross profits of each small business

from year to year in relation to their marketing orientations and strategies. The first step in this study was to get the project idea approved by the Institutional Review Board, which is an administrative organization in charge of protecting the well being and rights of human research subjects, to ensure that this study would not emotionally, physically, or mentally harm any human beings. The next step in this study was to identify as many small business owners in Simi Valley of various types of businesses. This study included one candy and coffee shop, two restaurants, two retail stores, two financial service businesses, two legal service businesses, one real estate service business, two insurance service businesses, one contracting business, one plumbing business, one air conditioning business, and one storage facilitation business. Once the business owners were identified, the next step was to interview each owner about their market orientation, how and why they have changed their orientation, and how gross profits of their businesses have changed annually. Then, with the assistance of marketing and statistical consultants Dr. Michael J. Soloman, Professor of Marketing at Saint Joseph's University and Paul D. Berger, Professor of Marketing with a focus in statistical analysis at Bentley University, the sets of data were correlated to determine which methods of marketing are the most harmful and beneficial to gross profits. The next step in the study was to acquire the Southern California Association of Governments (SCAG) report, which contains data on population, housing, employment, retail sales, transportation, and education in Simi Valley, to help determine whether economic shifts in the city had any effect on the profitability of a business.

This was the most suitable method of inquiry for the study due to its practicality. With the resources available, the only way to accomplish the goal of the study was through interviews with small business owners and the analysis of city data. The study attempted to interview as

many possible business owners because the more business owners there are in the study, the better represented the business owners are, and the more accurate the results are. The interview data was then analyzed with a regard to the city's economy to determine whether economic trends played a role in the importance of marketing.

Limitations

Some limitations regarding this study include a present flaw in many research projects, which is the struggle of convenience sampling. A convenience sample is a survey or set of interviews to gather data as one would in a regular random sample, however in the convenience sample respondents choose whether or not they want to respond. This is a limitation because in most cases, the odds of someone responding are greater if the business is doing well and succeeding, which could leave struggling businesses underrepresented. This limitation is almost impossible to avoid unless the data collected is a census because that is conducted by a government organization that has access to better resources. A challenge this study encountered was the discovery that several consumers go to specific businesses not because of marketing, but because of location convenience. An additional challenge this study encountered throughout the research was getting responses from business owners as well as their compliance to give me their spending and profit information. Another limitation faced in this study was the participation. Not every business owner contacted elected to take part in the study and do to this there were only sixteen businesses involved, and because of this in some of the business categories, there was only one participant. An additional limitation this study encountered is the anonymity factor. The majority of the business owners opted to have their name or the name of their businesses excluded from this academic paper. The final limitation is that none of the business

owners shared their exact gross profits in the interview and only generalized the improvement or regression of their gross profits annually during interview through percentages.

Results and Discussion

During the interviews with the business owners, each owner was asked whether or not their business had a specific marketing department or strategy and the answers were categorized. The dominant answer from seven of the sixteen business owners was that their business did have a specific marketing department, which consisted of a special consultant to some degree. Close behind the top answer were six of the sixteen business owners responding that their business did not have a marketing department, but they did have a specific strategy that he or she made by himself or herself. The remaining minority of the business owners consisted of the three of the sixteen owners and they replied saying their business had no specific marketing department or strategy.

When asked whether or not their business had a specific marketing approach, of the sixteen businesses, the thirteen businesses that responded saying they had some sort of strategy for marketing. Two of sixteen business owners replied saying they identified their target consumer and identified their strengths against their competitors before marketing and promoted those. Five of sixteen business owners replied saying they identified their target consumer before marketing. Two of sixteen business owners replied saying they identified their strengths against their competitors before marketing and promoted those. Three of sixteen business owners replied saying they market to as wide of an audience as possible to spread the word. One of sixteen business owners replied by saying they put an ad in the newspaper and on the radio. One of the sixteen business owners also said they focus on consumer retention.

The following question the business owners were asked was: Which of the following methods does your business use: Social Media, Newspaper Ads, Radio, Website, Rewards Program, Email, and Television Ads? In this question, social media implies that the business is using a social media platform such as Instagram, Twitter, or Facebook to promote their business in some way. Newspaper Ad means that the small business owners purchase space in a local newspaper for an advertisement. Radio means that the business is paying for some sort of airtime on the broadcast, paying for their commercial to be played, or paying for a mention of their name. Website means their businesses has a website that consumers can go on and learn more about the business. Email means the business provides some sort of subscription where the consumer can receive informational updates and emails from the business. Television Ad means the small business is paying for a commercial slot on cable television to promote their business. One of the sixteen business owners responded saying their business uses social media, website, emails, and a rewards program. Six of the sixteen business owners responded saying their business uses social media, website, and emails. Three of the sixteen business owners responded saying their business uses website and emails. One of the sixteen business owners responded saying their business uses social media and website. One of the sixteen business owners responded saying their business uses social media and local radio. One of the sixteen business owners responded saying their business uses newspaper ads and local radio. Three of the sixteen business owners responded saying their business uses none of these methods.

The study then analyzed the economic trends of Simi Valley to determine the role the economy played in profitability. The analysis of the trends found that since 2008, which was the deepest point of recession for the city, Simi Valley's economy had been improving every year.

This was shown by the improvement in the Real Estate Market where foreclosures between 2008 and 2014 had decreased by 499 households, the increase in jobs in almost every field as well as total number of jobs, and the decrease in unemployment levels (SCAG, 2016).

After discussing the annual revenue and marketing strategies of each business with its owner and analyzing Simi Valley's economic trends, this study was able to determine the most and least successful marketing strategies by tracking which businesses had the most success and looking at what marketing strategies were used.

This study found that the most successful market orientation for a small business in Simi Valley included having a marketing department that consists of a special marketing consultant, using the combination of social media, a business website, and emails to promote the business, and approaching marketing by identifying both your target consumer and your strengths versus the competing businesses.

This study found that the least successful market orientation for a small business in Simi Valley consists of marketing without a special consultant because more often than not, the business owner is not educated in marketing and overlooks the importance of it. This can cause the business owner to make an ill-advised decision that can hurt their market orientation. The least successful approach to marketing is not marketing at all because the business is relying on word of mouth by consumer to promote the business, which almost never attracts new customers. The least successful form of marketing is the newspaper ad because very few people still read the local newspaper.

Technology has become the main and most effective strategy for marketing in small businesses. Technology can also be harmful for small businesses through reviews. The common trend between the most profitable businesses was their focus on marketing.

The businesses that were the most successful and saw the most consistent and dramatic gross profit increase were Dr. Conkey's Candy and Coffee Company owned by Theodore and Cathy Mackel, Hugh Fisher's Edward Jones Financial Branch, and Dorhout Law owned by Kevin L. Dorhout. The two things these businesses had in common were their use of Social media, Website, and emails, and all three businesses had a special marketing consultant. Kevin L. Dorhout, former District Attorney and owner of Dorhout Law says, "my marketing consultant only comes into the office twice a week and once a week for a weekly meeting, but hiring her was the one of the smartest things he done" and that "she saves large amounts of time and money" (K. L. Dorhout, personal communication, March 7, 2017). Out of the three businesses, the most successful was the Mackel's business; Dr. Conkey's because they also paid attention to customer retention with the implementation of a rewards program, which according to the owner Theodore Mackel is "the lifeline of our success because it just keeps them coming back for more" (T. Mackel, personal communication, March 3, 2017). The three least successful businesses were the air conditioning business and the two restaurants. The one thing these three businesses all had in common was the lack of marketing. Two of the three businesses that did not market are mom and pop type shops whose revenue remains quite level, decreasing a small amount every year, while following the general trends of the economy. This is because both businesses have been established for more than ten years and already have their base set of customers, and because they have their base of customers, their gross profits have remained

fairly steady. However, both businesses are experiencing a slight decline in gross profits they have no customer retention program other than brand loyalty and newer businesses are starting to steal their businesses with marketing.

Through conducting this research and interviews, it has become apparent that a large number of businesses have switched to social media as a source of marketing for multiple reasons. The first reason social media is such a popular and successful form of marketing is because it is cheap and often even free, consequently, if media can spread the word about your business, it will most likely be the best option of marketing available as a business owner. In addition to its cost effectiveness, it also became the most prevalent source to market. With the number of people reading the newspaper every year, it is tough to accomplish anything with newspaper advertisements because no one will see them. Similar to this struggle with the newspaper, however nowhere near as dramatic, there is also a decrease in the number of people who buy cable TV, especially with the powerful emergence from third party providers such as Netflix, Hulu, Sling, and Amazon Video, which makes TV advertisements less effective than they once were.

The results from this study agree with Narver and Slater (1990), and their claim that the key to a profitable business is a strong market orientation. This study pushes the idea forward through identification of the most successful format for a strong market orientation in a small city such as Simi Valley. The results from this study also aligns with the ideas of Michael A. Stelzner, CEO of Social Media Examiner, the world's largest social media marketing resource, that social media is being underutilized in marketing because this study shows the success of social media and technology in marketing and Stelzner found that only 28% of businesses were

using it (Stelzner; 2010). The findings from this study conflict with the ideas of Lynn (2011) who claimed that businesses should be generalizing their marketing tools to the greatest portion of the population possible, but through this study, the findings determined the most successful approach to marketing is to identify your target consumer and cater to their wants and desires.

Implications

This research study, depending on the results, could allow business owners to completely rethink their marketing strategies to try and maximize gross profits through increase of sales and money saved on ineffective marketing strategies

It is essential for a business owner to understand marketing orientation and marketing strategies before you begin to market your product. Marketing not only spreads the word about the business and product, but it also builds a reputation for the business and with the correct marketing scheme, this could be an excellent reputation to have, but with a poor marketing scheme, the business has a good chance of developing an undesirable reputation. Through understanding which marketing strategies are the most beneficial, a business owner can better cater to the desires and needs of the consumer. Marketing is also an opportunity for a business to show off their desirable differences and exclusives, which illustrate why they are better than the competing business. Ultimately, this study will help the business owner maximize the profitability of his or her business.

The results of this study also are beneficial to the consumer. This is because as a consumer, you are being marketed at all times and often regret the purchase of certain items. And by understanding how businesses are going to market you, it is easier to avoid falling into the trap. The results are also helpful to the consumer because if small businesses create stronger

market orientations, as a result, there will be additional successful small businesses which increases selection and variety of products.

The findings of this study are important and a tool for the Simi Valley Chamber of Commerce (COC), which protects the interests of businesses in Simi Valley, because the COC has a vested interest in ensuring success for local small businesses and by encouraging the small businesses to market according to the findings of this study to improve their market orientation and profitability, the small businesses are bringing in more money to the local community, in turn improving the economy. The economy also sees an improvement from every circulation of the dollar because as the dollar circulates through Simi Valley, it creates wealth, income, and jobs. The results of this study are also important to the Chamber of Commerce because along with improving the local economy, promoting the community is also a goal of theirs. The increase in successful small businesses helps create a local bond as consumers create a relationship with the owners and employees. In addition, the results of this study may be beneficial to the city and community because if the marketing in small businesses is improving, then more people are going to shop local. This is important because your money that is being taken out as sales tax is going straight back into the local community and public services towards the betterment of the community. Money from taxes are used to improve our schools, government services, senior centers, youth programs, and road repairs. The success of small businesses is also important to the city because small businesses account for more than fifty percent of all jobs and more than sixty percent of new jobs (United States Small Business Administration; 2016).

The results of this study also has the potential to be an aid to any individual trying to start his or her own business by providing a starting point. For an individual looking to open a small business, understanding a successful and profitable market orientation is a must, because it is a new business that no one knows about. By understanding how to market, the business owner is opening up new possibilities and drawing in new customers, so understanding that social media is a helpful way to draw customers in and a rewards program is an important way to keep customers coming back which is an important way to start the business off strong and on the right track.

In addition, the results of this study are important because they can be applied not only in Simi Valley, but also in other cities with similar layouts. By conducting this study in Simi Valley, a smaller suburban city, the results have potential application in similar cities. This would allow the success of small businesses in cities similar to Simi Valley which creates wealth, income, obs, a strong sense of community, and funds for public services.

Ultimately, the most successful form of market orientation relies around technology and social media. The importance of marketing is overlooked and businesses miss opportunities because of its negligence. Proper market orientation in small businesses is important to the success of the business and the community's well being through schools and government services. This study's hypothesis that the businesses that focus their marketing efforts in social media and technology would be the most profitable was proven accurate and the hypothesis which predicted that most businesses would overspend on the wrong marketing strategies was proven inaccurate because about half of the businesses had a marketing consultant to help them create a successful market orientation. The key to a strong market orientation is to identify your

target consumer and your strengths against your competitors and then to cater those strengths to your consumer through a technological based marketing strategy.

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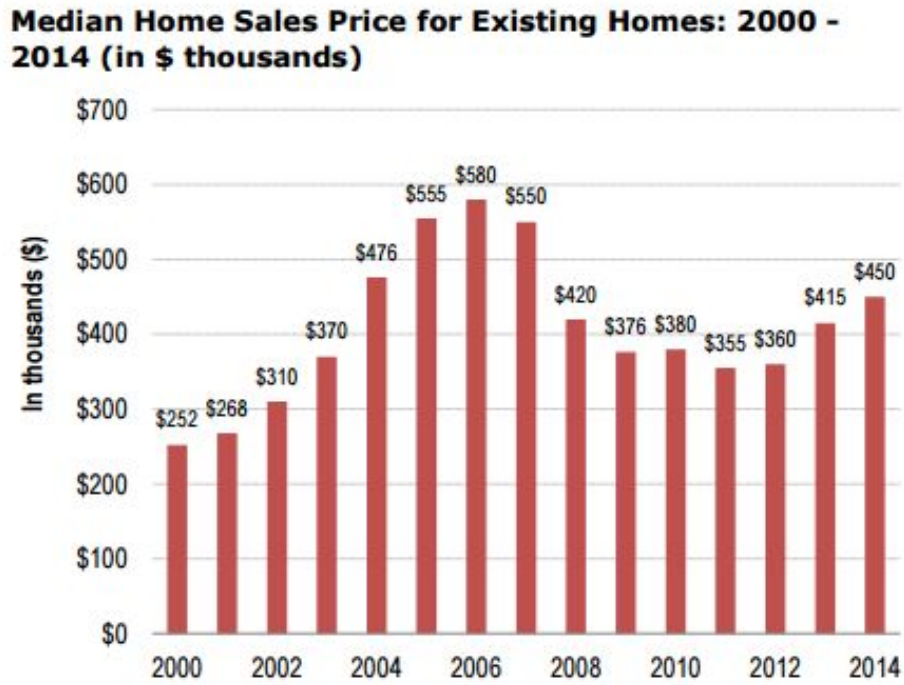
Appendices

Appendix A: Business Owner Interview

Business Owner Interview Questions

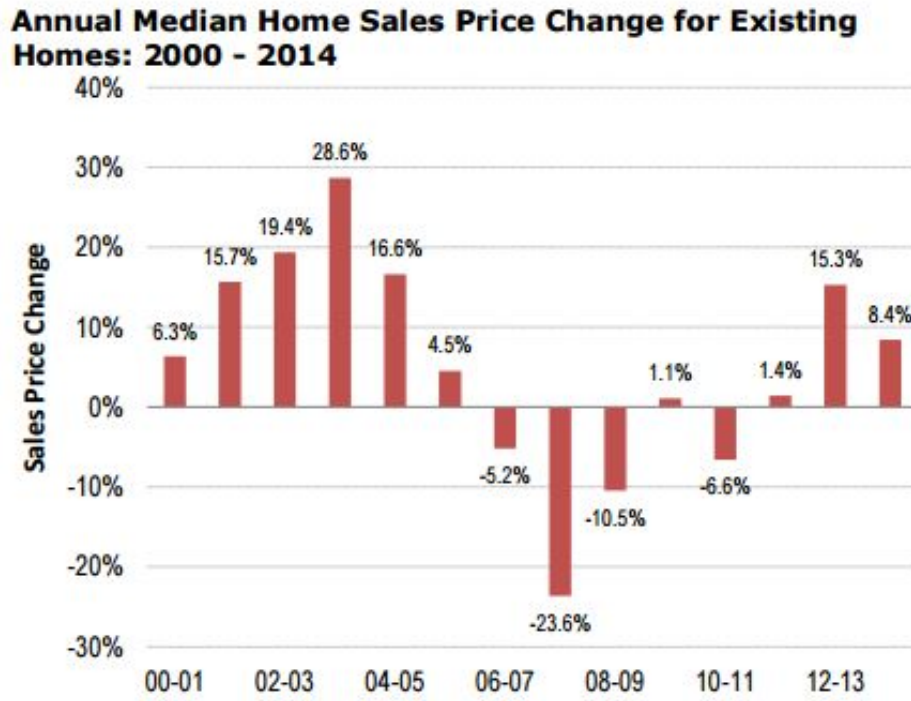
1. Does your company have a specific marketing department?
2. If so, how does business approach marketing?
3. How many different methods of marketing does your company utilize and what are they?
4. Have you ever consciously altered your marketing decisions based on the year prior?
5. Do you think it affects profitability?
6. Has revenue fluctuated from year to year?

Appendix B: Median Home Sales Price For Existing Homes: 2000-2014 (in \$ thousands)



Source: MDA Data Quick, 2014

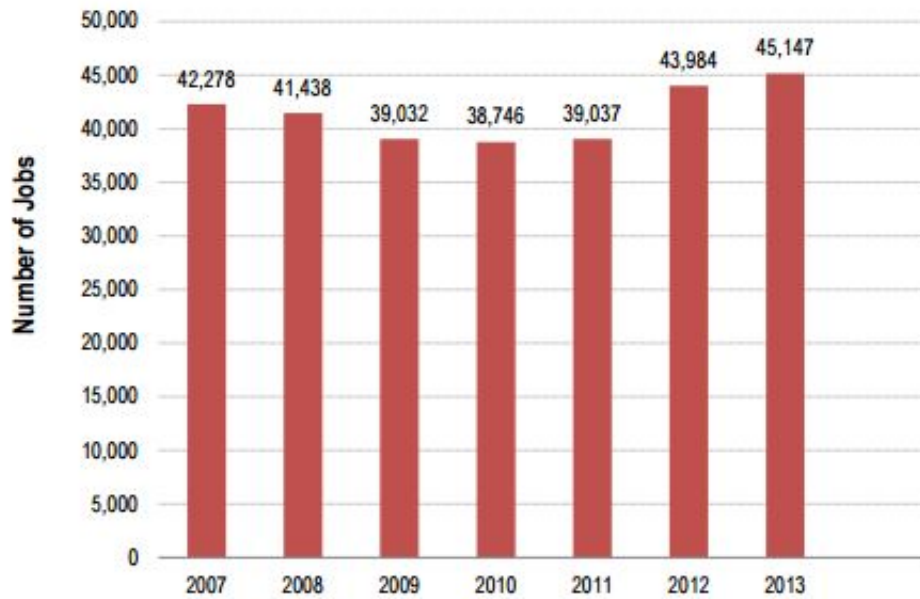
Appendix C: Annual Median Home Sales Price Change for Existing Homes: 2000 - 2014



Source: MDA Data Quick, 2014

Appendix D: Total Jobs: 2007 - 2013

Total Jobs: 2007 - 2013



Sources: California Employment Development Department, 2007 - 2013; InfoGroup; and SCAG