

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.

Literature Review

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, 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.

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 from Bain and Company, researcher Fred Reichheld, 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.

Purpose

This study delved 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. 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.

Question

How Does Marketing Affect the Profitability of Small Businesses in Simi Valley in relation to the economic status of Simi Valley?

Hypothesis

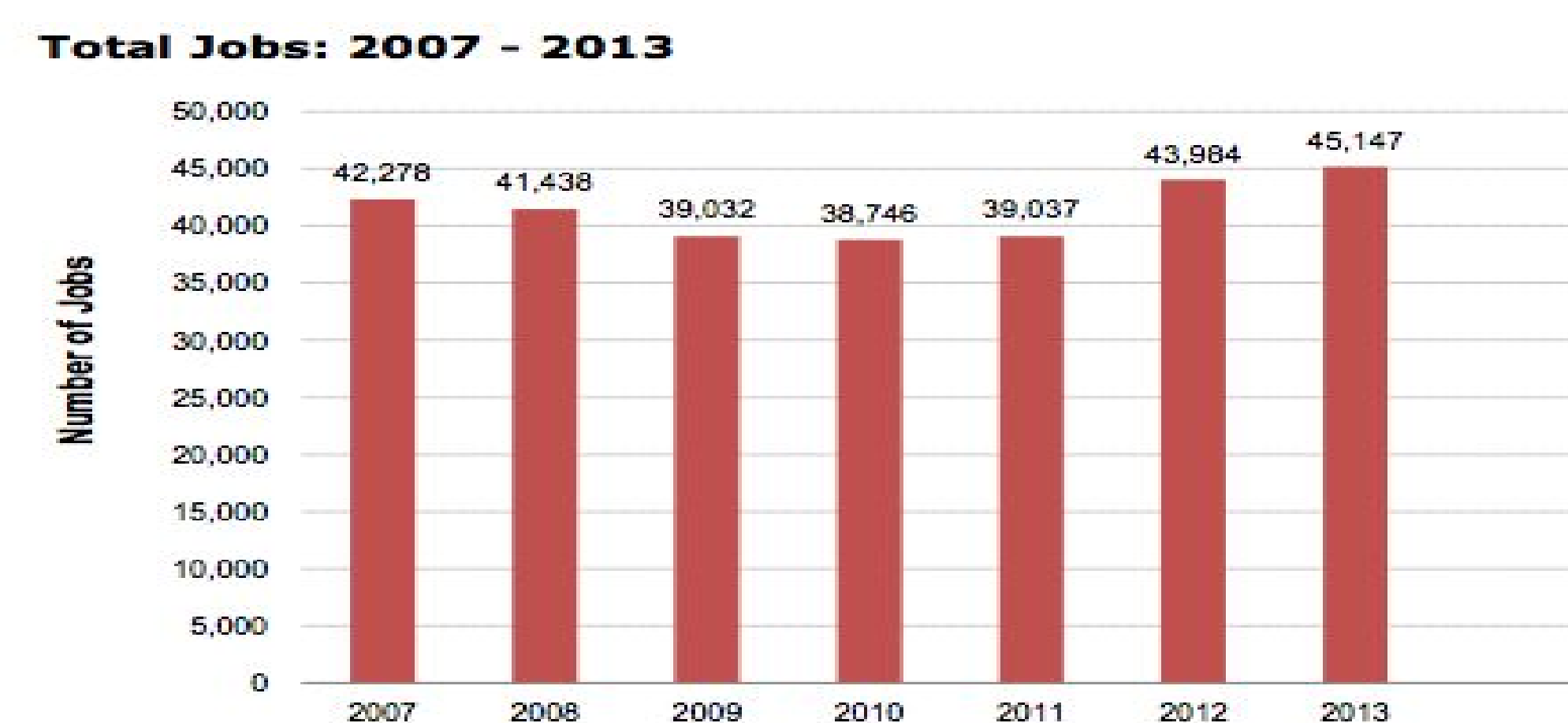
This study's predictions are as follows: businesses that focus their marketing in social media and technology will be the most profitable because in today's society, almost everyone has some form of social media. The majority of business owners will overspend on marketing, and more specifically on the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

Methods

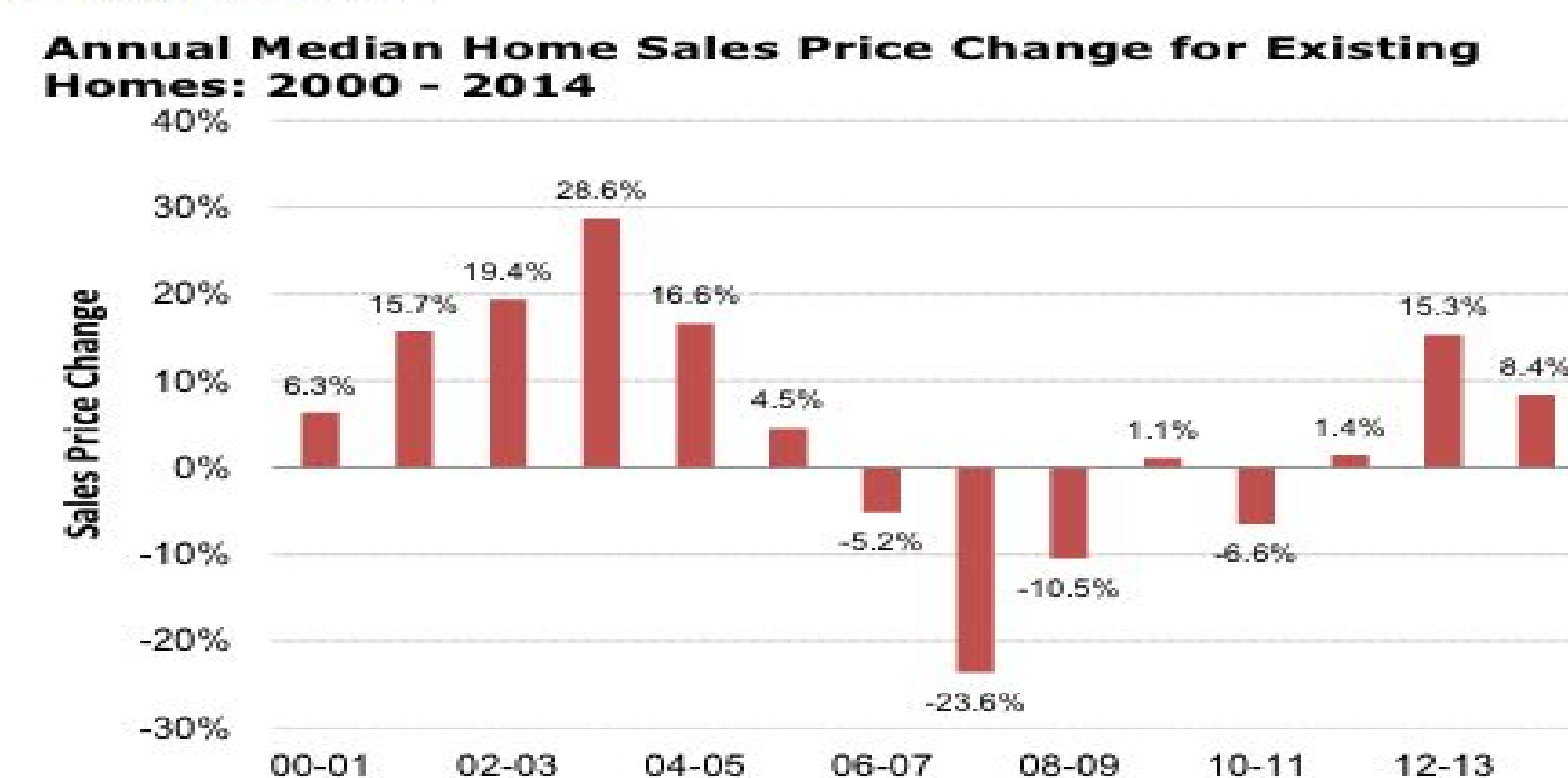
This study of marketing in small businesses contains a hybrid research method combining the characteristics of both qualitative and quantitative studies. The qualitative portion of this study is a set of interviews with business owners of various small businesses in Simi Valley, and the quantitative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

Results

Simi Valley



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

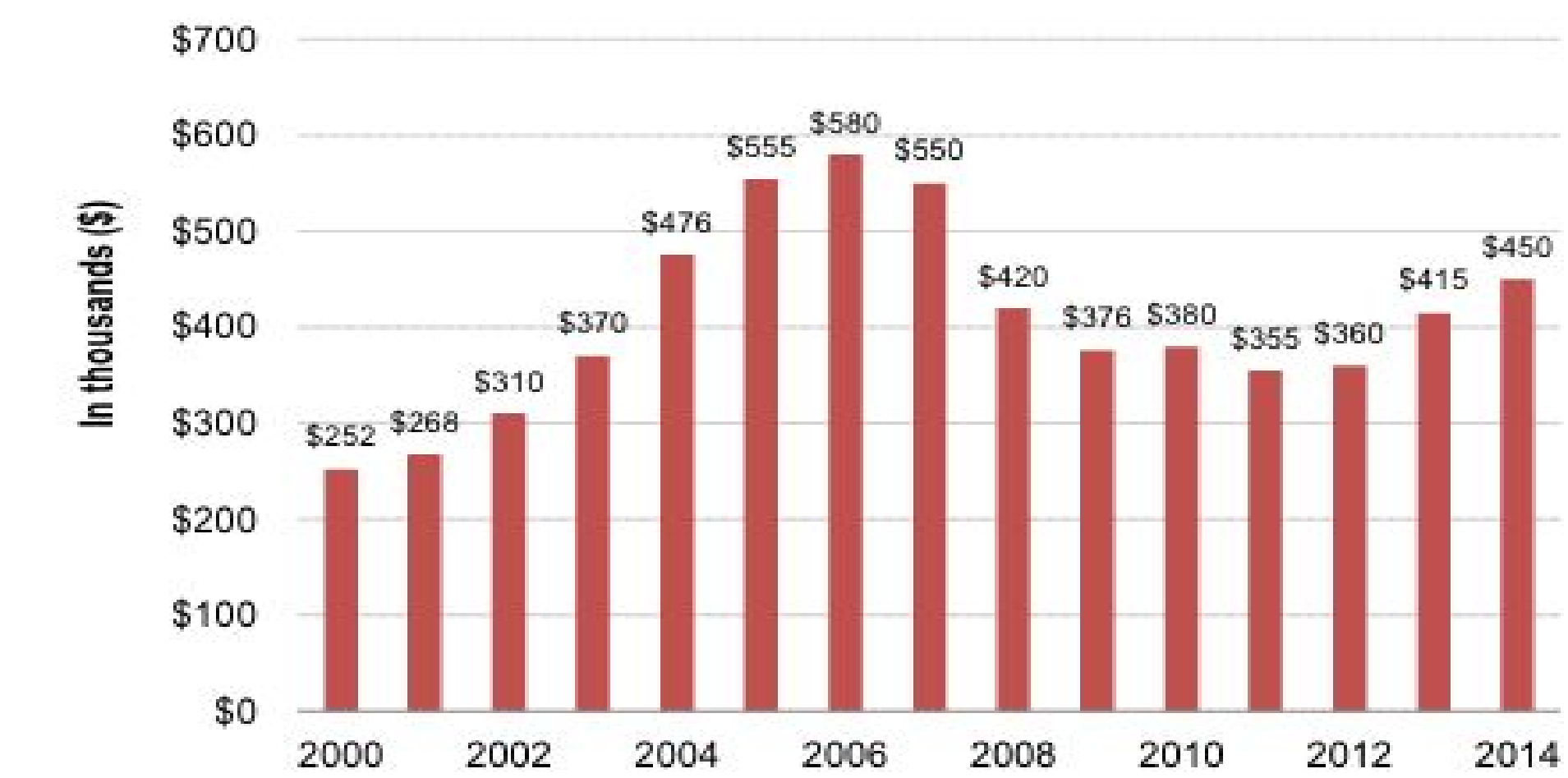


Source: MDA Data Quick, 2014

Results (cont.)

Home Sales Prices

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



Source: MDA Data Quick, 2014

Interviews

Does your business have a specific marketing department or strategy?

- 7 of the 16 replied saying their business did have a specific marketing department, that consisted of a special consultant to some degree.
 - 6 of the 16 replied saying their business did not have a marketing department and made all marketing decisions by themselves.
 - 3 of the 16 replied saying their business had no specific marketing department.
- #### If so how does your business approach marketing?
- 2 of 16 replied saying they first identified their target consumer and identified their strengths against their competitors and promoted them.
 - 5 of 16 replied saying they identified their target consumer before marketing.
 - 2 of 16 replied saying they identified their strengths against their competitors before marketing and promoted those.
 - 3 of 16 replied saying they market to as wide of an audience as possible.
 - 3 of 16 replied saying they do not do any marketing.
 - 1 of 16 replied by saying they put an ad in the newspaper and on the radio.
 - 1 of the 16 business owners also said they focus on consumer retention.

Which of the following methods does your business use: Social Media, Newspaper Ads, Radio, Website, Email, and Television Ads?

- 1 of the 16 responded saying their business uses social media, website, emails, and a rewards program.
- 6 of the 16 responded saying their business uses social media, website, and emails.
- 3 of the 16 responded saying their business uses website and emails.
- 1 of the 16 responded saying their business uses social media and website.
- 1 of the 16 responded saying their business uses social media and local radio.
- 1 of the 16 responded saying their business uses newspaper ads and radio.
- 3 of the 16 responded saying their business uses none of these methods.

Discussion

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.

Discussion (cont.)

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. In addition, if small businesses creates 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 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 used to improve our schools, government services, senior centers, youth programs, and road repairs.

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 is aware of and marketing creates awareness.

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, jobs, a strong sense of community, and funds for public services.

Conclusion

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.

References

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Acknowledgements

I would like to thank my mentor, Dr. Michael J. Soloman, professor at Saint Joseph's University, Professor Paul D. Berger from Bentley University, Simi Valley Councilman Glenn Becerra, and my AP Research teacher Dr. Jon Krister Swanson for helping me achieve my project goals.