The Influence Of Product Marketing Strategy Determinants On Firm Performance In SME
Food Industry

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I/We, hereby declare that have read this thesis and in my/our thesis is sufficient in terms of scope and quality. This project paper is submitted to Universiti Teknikal Malaysia Melaka as a requirement for completion and reward of Degree Bachelor of Technopreneurship

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# APPROVAL

"I declare this thesis entitled 'The Influence Of Product Marketing Strategy Determinants On Firm Performance In Smes Food Industry' is my own work except the summary and excerpts of each of which I have mentioned the source"

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# DEDICATION

I would like to dedicate the appreciation for my beloved families, lecturers and friends.

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# Abstract

The changing of market environment and growth sales activity in the market causes the increasing attention to the variables effect on firm performance. However, despite a lot published about determinants of firm performance, the literatures are characterized by the lack of consensus among researchers as to what constitutes product marketing strategy of firm performance. The main purpose of this research is to study the product marketing strategy determinant on firm performance of SMEs food industry located in Southern Region Malaysian. The methodology, using a survey design with 120 questionnaires completed by SMEs food industry, as a quantitative approach were conducted by using the statistical package for social science (SPSS) for the analysis. The main findings from the research are the product marketing strategy are classified to product specialty, product invention, branding, and packaging and labeling effective element contributed to firm performance. Our study contributes to academicians and the researchers who are concerned in identify the element of product marketing strategy effect on firm performance. The future research may investigate the result of this study should broaden the scope sample. This may also focus on the different geographical region in Malaysia with different industries.

**Key words**: Firm performance, product marketing strategy product specialty, product invention, product discrimination, branding, packaging and labeling, food industry

Abstrak


Perubahan persekitaran pasaran dan pertumbuhan aktiviti jualan di dalam pasaran menyebabkan tumpuan yang semakin meningkat kepada kesan pembolehubah ke atas prestasi firma. Walau bagaimanapun,banyak terbitan mengenai penentu prestasi firma, kajian literatur dicirikan dengan kekurangan kesepakatan di kalangan penyelidik tentang apakah produk strategi pemasaran yang membentuk prestasi firma. Tujuan utama kajian ini adalah untuk mengkaji strategi pemasaran produk penentu kepada prestasi firma industri makanan PKS yang terletak di Wilayah Selatan Malaysia. Metodologi, menggunakan reka bentuk tinjauan dengan 120 soal selidik yang dilengkapkan oleh industri makanan PKS, sebagai pendekatan kuantitatif telah dijalankan dengan menggunakan pakej statistik sains sosial (SPSS) untuk analisis. Penemuan utama daripada kajian ini ialah strategi pemasaran produk dikelaskan seperti Keistimewaan produk, ciptaan produk, penjenamaan dan pembungkusan dan pelabelan adalah elemen yang berkesan menyumbang kepada prestasi firma. Kajian pada masa hadapan boleh menyiasat hasil daripada kajian ini dengan memperluaskan skop sampel. Ini juga mungkin boleh memberi tumpuan kepada kawasan geografi yang berbeza di Malaysia dengan industri yang berbeza.


**Kata Kunci**: Prestasi Firma, strategi pemasaran produk, keistimewaan produk , ciptaan produk, diskriminasi produk, penjenamaan, pembungkusan dan pelabelan, industry makanan.

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# CHAPTER 1

# INTRODUCTION

## 1.1    Background

Nowadays, the changing of market environment, food industry operators must place a high preference on understanding the market in order to retain and sustain strategic advantage in the highly competitive food industry. This industry is considered to be the fastest growth industry in the global market, and it is discuss by players of the industry as being in the middle of a perfect storm (Haas, 2008).

According to Malaysian-German Chamber of Commerce & Industry (MGCC), the food industry contributed about 10% of the Malaysian manufacturing output attracted a total of RM1.972 billion in 69 projects in 2010. The changes of Malaysian lifestyle have resulted to an increase in the demand for convenience food and health food which in turn has led to more establishments of food-processed based SMEs in the country. The Malaysian SMEs in the food industry are driven to operate to contribute to household income, for self-employment and the growing demand of international markets in particular for *halal* foods (SMIDEC, 2007).

The processed foods are exported to more than 80 countries, with annual export value of more than RM6 billion (approximately US$1.7 billion), amounting to two-thirds of the total Malaysian food exports (The Busy Times, 2010). The food industry is dominated by small and medium scale companies about 80% of the total numbers of establishments are SMEs.( Malaysian-German Chamber Of Commerce & Industry MGCC, 2012).

The food industry is highly competitive in market. To be competitive in market, company managers should understand the various product problems and there effects on company firm performance the capability of using product marketing strategy in market competition was critical for a firm performance (Mavrogiannis, Bourlakis, Dawson, and Mitchell, 2008, Leonidou, Katsikeas, and Samiee, 2002).

## 1.2    Problem Statement

This involves identifying the decision problems and interpretation these problems into the research problems. Product marketing strategy is a critical strategic capability that drives marketing strategy, with the purpose of gaining a competitive marketing advantage (Ang & Wight, 2009).

Product marketing strategy face given internal challenges around identifying new product opportunities and feature sets, developing those products to suit consumers' needs, and bringing those products to market. The main problems of the product strategy are the identification of effective determinants of firm performance, and basically have conflicting knowledge about determinant of firm performance. (Nazar and Saleem, 2009, Gertner and Guthery, 2006).

Furthermore, to become competitive advantage in market, company are faced with the problem of ensuring sustained preference to achieve product marketing strategy that effective determinant which impact to firm performance. The issues faced by food industry are to determinants what are the determinants influence of product strategy on firm performance. That is why the product strategy of product specialty, product invention, branding, product discrimination and packaging and labeling are crucial factors that need to be examined to determine their effect and relationships with firm performance. In other words, the study will attempt to identify and link the cause and effect relationship between product marketing strategy and firm performance for food industry.

## 1.3    Research Question

The purpose of this study is to identify whether product marketing strategy is determinants that influence on firm performance. In addition, this research seeks to measure whether product marketing strategy such as product specialty, product invention, branding, product discrimination and packaging and labeling lead to superior firm performance in the market

Product marketing strategy helps to explain what the most determinants elements to marketers actively manage their decision making on the basis of a response to firm performance. Product marketing strategy is a proactive measure of commitment to support a firm performance. This research is guided by the following questions:

Research Question 1: What is the SMEs food industry profile in Malaysia?

Research Question2: What are the determinants of product marketing strategy that influence on firm performance in food industry?

Research Question 3: What are the most elements of product marketing strategy that effective firm performance in food industry?

## 1.4    Research Objective

A product marketing strategy is the first and most important component of the marketing mix. It is the set of controllable, tactical product strategy of product specialty, product invention, branding, product discrimination and packaging and labeling which are the variables that marketing managers can control in order to best firm performance in term of customers satisfaction and financial performance. The objectives of study are:

1) To identify SMEs food industry profile in Malaysia

2) To examine the determinants of product marketing strategy that impact on firm performance for food industry.

3) To determine the most element of product marketing strategy that effective on firm performance.

After a general introduction in section 1, this research is organized as follows: Section 2 reviews of literature on the main topics related with the study. Firstly, it will start with the firm performance, product marketing strategy, product specialty, product discrimination, product invention, branding and packaging and labeling. The section ends with a proposed framework to be used as a guide for this research which links to the elements of product marketing strategy that related with the firm performance found in the literature. Section 3 describes the methodology designed to identity the relationship among the determinants of product marketing strategy that contributed to the firm performance with a quantitative approach using questionnaire.

# CHAPTER 2


# LITERATURE REVIEW


## 2.1    Firm performance


Firm performance can be classified into financial and non financial indicators. Firm performance is a multidimensional concept whose guide can be departmental, such as pertaining to production, finance or marketing (Sohn et al., 2007) or resulting such as pertaining to growth and profit (Wolff and Pett, 2006). Financial performance measures the results of a firm's policies and operations in monetary terms such as return on investment return on assets, value added, profitability, sales and revenue.


In recent years, researchers have called for more studies evaluated the precise impact of marketing activities on firm performance (Rust et al. 2004). Previous research in marketing strategy (Krasnikov and Jayachandran 2008; Vorhies and Morgan 2005) has shown that marketing strategy are important drivers of firm performance. The study of non-financial performance most often quote in the food industry are those focusing on customer satisfaction, customer complaints, service quality, and customer loyalty (Kennely, and Neely, 2003).

In addition product marketing strategy should be important factors in driving positive return on marketing investments, thus helping to drive financial performance (Rust, Zeithaml, and Lemon, 2000). Furthermore, by developing an enlarged its customer base, the firm will more deeply penetrate the market and improve its sales turnover and market share (Homburg, Grozdanovic, and Klarmann, 2007). Higher levels of customer satisfaction will increase repeat purchases and attract new customers through a positive product reputation, thus improving company.

Financial and market measures are used as performance indicators. Sales growth rate and profitability are widely applied financial measures (Auger, 2005,Garbi, 2002 Sainiand Johnson,2005). According to Singh (2004), nonetheless of some mixed findings, financial measures typically reflect approach that includes sales volume or sales growth, profitability, and return on assets.

Moreover, the success of a product marketing strategy can be evaluated in terms of the customer satisfaction that it generates (Kaynak and Kara, 2004). As a outcomes of increased customer satisfaction, it is rational to assume that repeat purchase and customer loyalty would be enhanced, and consequently profitability (Maydeu-Olivares and Lado, 2003).

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**2.2    Profile of food industry in Malaysia**.


The food industry is mostly Malaysian-owned. In Malaysia, the food industry is dominated by small and medium scale companies. This statement is supported by IMP3 (2006), which indicates that SMEs involve more than 80 percent of the total number of corporations in the food industry.


Nowadays, the processed foods that are thriving in grocery shops are modern processed foods and traditional foods, but their manufacturing technology, process control and manufacturing and packaging environmental facilities have been advanced and justify to an incomparable dimension (Ministry of International Trade and Industry, MITI). The Malaysian food and beverage market is becoming increasingly advanced and is supplied by both local and imported products.


According to Malaysian Investment Development Authority MIDA (2012), Malaysia exported food products worth $6.7 billion to more than 200 countries, of which, processed food contributed about $4.4 billion. The industry is involved in the manufacture of alcoholic and non-alcoholic beverages, dairy products, cooking oil, coffee and tea, cereal-based foods, spices and spice mixes, sauces and condiments, processed fish and meat products, chocolate and snacks, baked products and other cooked food preparations, including frozen foods.


Food and beverage has been a second manufacturing sub-sector after textile, that dominated by SMEs with number of 5,925 business entity from 6,069 total numbers of companies (Khairul Anuar Ali and Hayati Habibah Talib,2013).This industry is one of the major contributors to growth of all economies and has historically observe consistent growth.

## 2.3 Product Marketing Strategy

Marketing strategy as a set of business principles that an enterprise uses to serve its customers and achieve profitability (Kotler, 2003). Most Researchers have described marketing strategy via the incorporated aspects that included of Product, Price, Place, and Promotion (Kotler, 2003, Slater, Hult, and Olson, 2009). Although, some of the study explained that marketing strategy is a roadmap of how a firm allocates its resource and relates to its environment and accomplish corporate objective in order to produce economic value and keep the firm ahead of its competitors (Brodrechtova, 2008).

Marketing strategy is major elements of firm performance and one of key factors determinants firm performance is product marketing strategy. Previous research has shown that product marketing strategy are an important part of marketing mix that influence firm performance (Leonidou,*et al.,*2002, Mavrogiannis et al.,2008). From various product dimensions that are related to firm performance, actual and augmented product factors have been given appreciable attention (Tantong, Karande, Nair, and Singhapakdi, 2010) found that product design adaptation strategy was associate to firm performance positively.

Based on Lages, Silva, and Styles, (2009) study explain that only product invention had positive effect on economic performance of firm and so they emphasized that in today's international markets, in which major role is played by product invention to increase economic performance. Beside, they mentioned that, product development and invention persist to be seen as a fundamental strategy for competitive success and survival within a competitive global market (Wells *et al*, 2007.) Therefore product invention has positive effect on firm performance.

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According to Leonidou, et al., (2002) resulted product design, packaging and labeling in the industrial market context did not show any significant correlation with firm performance. In addition, from the literature Zou , Fang , and Zhao (2003), they concluded that branding advantage influence firm performance positively. In another research Waqas Khalid and Waqar Ahmad, (2009) examine in branding, they noted that Branding provide benefits potentially clarify the decision making process of the consumer and provide customer loyalty which is a superior advantage for firm performance. So, concluded that branding influence firm performance positively.

Based on Haque, Arshad, and Rahman, (2002) in the research about firm performance and marketing opportunities of Malaysian ready-made garment products concluded that the best way for better firm performance was to enhance specialty of products. According to Ogunmokun and Ng, (2004) in their study about factors influencing firm performance in international marketing for Australia firms mentioned that product differentiation strategy was one of factors for discriminating between high and low firm performing companies. Maybe, discrimination in product can give a firm distinct advantage over its competitors.

Accordingly, from the brief of literature review pertaining to factor effective on firm performance in this research, the product marketing strategy concept of product specialty, product discrimination, product invention, branding and packaging and labeling is used in this research as a success measurement in firm performance

## 2.4    Product Specialty

Product focus on the specialty of a product such as durability, distribution networks, form, features, performance and conformance quality, reliability, reparability, and style (Kotler& Keller 2006). Previous research has found evidence for a positive relationship between product specialty and firm performance (Brooks, 2006). Moreover, Studies had shown inconsistency in terms of the importance of the food specialty which are mainly quality, and tangibles (Namkung, Jang 2007).Product specialty such as Form refers to the size, shape, or physical structure of a product, whereas features denote aspects that supplement the product or service's basic function. Performance quality is the level at which the product's primary specialty operate. Conformance quality is the degree to which all the produced units are identical and meet the promised specifications. Durability is a measure of the product's expected operating life under natural or stressful conditions.

Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period, while reparability is a measure of ease of fixing a product when it malfunctions or fails (Kotler & Keller 2006).As a consequence of the perception of higher product specialty, sales may increase. Marketer may also be in a position to be charge a higher price for their products as long as the overall value-for-money relationship remains competitive. Thus, the performance measured by sales volume, revenue, market share or profitability is likely to rise (Lages et al., 2008). The extent to which firms achieve their objectives in terms of sales, profitability, and market share, as well as overall performance. Therefore, the researcher hypothesize that a positive relationship exists between product specialty and firm performance improvement.

$H_1$: Product specialty is positively related to firm performance improvement

## 2.5    Product Discrimination

Product discrimination is a classic marketing strategy to gain competitive advantage. Product discrimination is the process of producing a product or service that is consider as unique in a particular industry (Toften and Hammervoll, 2009). Furthermore (Holcombe, 2009) addressed that product discrimination and development from an economics' perspective. The paper looked at how, through product discrimination, the economy can progress, product costs can decrease, and quality can improve. As evaluated by (Boehe and Cruz, 2010) indicated that product discrimination is not only important to compete with current competition, but it also creates barriers to entry, customer loyalty, and lack of ability to imitate.

In general terms, product discrimination involves creating a differentiated image or a higher quality. Research has shown that it relates to differentiating the company's overall image, and increased quality, where quality has to do with the different combination of plentiful products characteristic (Boehe and Cruz, 2010). Product quality is a competitive factor and may refer to several product characteristics, such as product performance, durability, reliability, and consistency with specifications , amongst other characteristics. Previous research has found evidence for a positive relationship between product differentiation and firm performance (Brooks, 2006).Although previous research supports the general positive relationship between product differentiation and firm performance (Brouthers, and Hadjimarcou, 2005). Therefore, the researcher hypothesize that a positive relationship exists between product discrimination and firm performance improvement.

$H_2$: The product discrimination is positively related to firm performance improvement.