

IMPEDIMENTS TO ADOPTION OF E-MARKETING BY TANZANIAN SMALL AND MEDIUM SIZED ENTERPRISES: AN EXPLANATORY MODEL

Isaac Kazungu 

Department of Marketing, Procurement and Supply Management,
Moshi Co-operative University, Moshi, Tanzania

&

Entrepreneurship and Procurement Department,
Jomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya

isaackazungu@gmail.com

Faustine Peter Panga

Department of Marketing, Procurement and Supply Management,
Moshi Co-operative University, Moshi, Tanzania

Alban Mchopa

Department of Marketing, Procurement and Supply Management,
Moshi Co-operative University, Moshi, Tanzania

Abstract

This paper uses the explanatory model to investigate the impediments to the adoption of electronic marketing among the Small and Medium Enterprises (SMEs) in Arusha, Tanzania. It looks at the extent of e-marketing utilization among small and medium enterprises; challenges facing SMEs in relation to the application of e-marketing and new strategies that would promote its adoption among the SMEs in the country. A structured questionnaire with 5 point Likert scale was used to collect information from owners and operators of 120 SMEs. Obstacles such as limited understanding of the potentials of e-marketing adoption, high cost of this technology adoption, inaccessibility of internet facilities and absence of regulatory framework to guide e-marketing were found to inhibit the adoption process. It was concluded that e-marketing is vital

for the growth and performance of SMEs. Intervening strategies such as lowering costs of ICT facilities and Internet access prices by the Internet Service Providers, more support and initiatives by government on promoting and encouraging SMEs to use e-marketing, education and training on ICT and e-marketing for small operators and creation of shared portals that will facilitate information sharing and networking among the business communities are among the recommendations of this study.

Keywords: E-marketing, E-commerce, ICT, adoption, SMEs, Tanzania

INTRODUCTION

Small and Medium Enterprises (SMEs) are increasingly recognized as important drivers of socio-economic development all over the world (Kazungu, Ndiege Mchopa, & Moshi, 2014). Their importance according to Holt (2006) can be viewed in aspects such as productivity, innovation and employment creation, income generation and distribution, poverty alleviation, training, including labour absorption, ground for the development and upgrading entrepreneurship skills, and are important vehicles for promoting forward and backward linkages in geographically and economically diverse sectors of the economy in many countries. This makes them regarded as backbone of global economic growth (Gupta & Khanka, 2008).

While their contributions to the country's development are generally acknowledged, SMEs almost all over the world are facing many obstacles that limit their sustainability. One of the critical obstacles is the adoption to electronic marketing (e-marketing) to facilitate their operational activities. SMEs in developing countries are having doubts on e-marketing adoption as they perceive very high development costs and do not understand how e-marketing can enhance their business performance and sustainability. It is evident that small business failure can result from either a lack of marketing, or poor marketing practice (Bruno and Leidecker, 1988), this leave them to be more vulnerable to competitive threat (Carson and McCartan-Quinn, 2003). SME's and e-marketing are simultaneously increasingly becoming part of economies of both developing and developed countries (Geoffrey and Ferrel, 2008).

The adoption of e-marketing can positively influence business profitability (Matikiti *et al*, 2012). It plays an important role in innovation, advancement and sustainable development worldwide (Doha Bank, 2011) and thus SMEs who are keen in adopting e-marketing have achieved above average business (Njau & Karugu, 2014). Despite the importance of e-marketing on business performance, most SMEs do not use it (Mutua *et al* , 2013), thus SMEs have not strap up internet potential as compared to larger enterprises that enjoy better market access. Whereas many studies have looked at the determinants of internet adoption by SMEs

and factors affecting SME growth including marketing separately, this study therefore is focusing at impediments to the adoption of e-marketing among the SMEs in Tanzania. It looks at the extent of e-marketing utilization among small and medium enterprises; identify challenges face small and medium enterprises in relation to the application of e-marketing and suggest strategies to improve the espousal and use of e-marketing.

REVIEW OF THE LITERATURE

The SME's nomenclature is used to mean Micro, Small and Medium Enterprise. It sometimes referred to as Micro Small and Medium Enterprise (MSMEs) (URT, 2003). The European Commission defines "small and medium enterprises are companies that employ less than 250 staffs and have annual turnover not exceeding Euro 50 million or an annual balance sheet total not exceeding Euro 43 million (European Commission, 2006). In Kenya, small enterprises have between 11-50 employees (Nganga *et al*, 2011). Medium enterprises employ between 51-100 people (Onyango *et al*, 2011). In Tanzania, Micro enterprise are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5 millions. The majority of the micro-enterprise falls under the informal sector. Small enterprises are mostly formalized undertaking engaging between 5-49 employees with the capital investment from Tshs.5 million to 200 million. Medium enterprise employs between 50-99 people or use capital investment from 200 million to 800 million (URT, 2003).

Marketing is an activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large (American Market Association (AMA), 2013). It is a social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others (Kotler, 2011). Electronic marketing (e-Marketing) can be viewed by many as a new philosophy and a modern business practice involved with the marketing of goods, services, information and ideas via Internet and other electronic means (El-Gohary, 2010). Literally the definition of e-marketing varies according to each author's view point, background and area of specialization. For that, while Smith and Chaffey (2005) defines it as a way of achieving marketing objectives through applying digital technologies, Strauss and Frost (2001) views it as the use of electronic data and applications for planning and executing the conception, distribution and pricing of ideas, goods and services to create exchanges that satisfy individual and organizational goals. Hoffman and Novak (1997) on the other hand defined it as a wide range of supply chain business activities and relationship management via online (selling, ordering, payments, home shopping/banking, purchasing online, communication) with the aim of improving market efficiency in dealings with suppliers and clients.

Table 1: Synthesis of the study Literature

No.	Author(s)	Research focus	Findings & Recommendations
1.	Sparks and Thomas (2001)	Challenges facing Small and Medium-sized Agri Food Enterprises (SMAFEs) in Wales and Welsh Agri Food Sector	<ul style="list-style-type: none"> ▪ Enhancement of e-commerce and the marketing of the product through the internet to an international audience ▪ Therefore SMAFEs joined forces with different WEI (web design companies to offer high quality consultancy and advice to provide web site and e-commerce solutions relevant to SMAFEs for them to create an anticipated net through worldwide sales. ▪ The need for appropriate support to provide SMAFEs to make them aware of the adoption of e-commerce including internet marketing and websites.
2.	Nielinger (2003)	ICT utilization of SME's in Dar es Salaam, Arusha, Mwanza, Zanzibar (Urban West) and Mara - Tanzania,	<ul style="list-style-type: none"> ▪ The study concluded that with roughly 46% word processing is the most widespread application, ▪ Internet communication (email, WWW) and other advanced office, management or controlling applications are secondary with only a modest rate of diffusion ▪ The need for training on the effective use of software, ▪ Reducing costs of more complex software solutions
3.	Kariuki (2012),	<p>To explore internet usage on SMEs in Nakuru town constituency</p> <p>To establish the level, purposes and benefits of Internet use among the small and medium enterprises in Nakuru Town Constituency</p>	<ul style="list-style-type: none"> ▪ Challenges such as high Internet access fees, underdevelopment of ICT infrastructure, low level spread of internet marketing skills and poor connectivity. ▪ Very few SMEs adopted internet marketing due to lack of ICT infrastructure and low Internet speeds/ signal levels ▪ ISPs should lower Internet access prices, ▪ A need for mass awareness programs to increase the level of internet marketing usage
4.	Njau and Karangu (2014)	The influence of e-marketing on the performance of SME's in Kenyan manufacturing industry	<ul style="list-style-type: none"> ▪ Majority of Kenyans do not adoption e-marketing due to perceived very high development costs ▪ a significant influence of search engine marketing, email marketing, blog marketing, and online advertising on business performance ▪ adopters of e-marketing have achieved above average business performance ▪ the need for campaigns to disseminate information to SMEs on e-marketing framework and policies, best practices, success stories, and opportunities and obstacles relating to the use of ICTs and e-marketing

The reviewed studies (in Table 1) by Njau and Karangu (2014), Kariuki (2012), Nielinger (2003), Sparks and Thomas (2001) focused on ICT internet usage and e-marketing in contexts other than Tanzania, and even the study by Njau and Karangu (2014) on the influence of e-marketing on the performance of SME's in manufacturing industry was mainly done in Kenya. Thus it is obvious that no known local study had been done on this observable fact and base on this background, this study investigate the impeding factors to the adoption e-marketing among the Tanzanian SMEs.

RESEARCH METHODOLOGY

The study was carried out through descriptive survey design. The target population of this study consisted of 172 SMEs in Arusha CBD-Tanzania obtained from a summary report of business register under National Bureau of Statistics 2011/2012 Tanzania mainland. The subjects of the study were all the management staff and all the staff of the selected SMEs. The simplified formula by Yamane (1967) was used to compute the sample size at a 95% confidence level and $P = 0.05$, where n is the sample size, N the population size and e the sampling error (level of precision).

$$n = \frac{N}{1 + N(e)^2}$$

Given that: $N = 172$, $e = 5\% = 0.05$

$$n = \frac{172}{1 + 172(0.05)^2} = 120.2797$$

Basing on the above formula, the sample size was 120 SMEs. This was then categorized proportionately into five industrial strata as indicated in Table 2. Stratified sampling technique was used to select SMEs owners and operators while questionnaire was used as a data collection instrument with five point Likert scale. Data were analyzed using the descriptive statistics aided by the Statistical Package for Social Scientists software (SPSS).

ANALYSIS AND DISCUSSION OF FINDINGS

Demographic Characteristics of Respondents

The response of each demographic profile was expressed as a percentage (%) of the total 120 respondents. The study was interested in knowing the sex of the respondents and it was observed in Table 2 that 63% of respondent were male, while 37% of respondents were female. This implies that the main participants in small and medium enterprises were the male gender. This difference is caused by restrain factors such as women's reproductive roles, education, entrepreneurial capacity and technical skills, others are limited start-up capital, limited access to

credit for working capital and limited capacity to absorb the consequences of failure as supported by Rutashobya (1995) and ILO (2003, 2003a, 2003b) this implies that there is a gap between male and female engaging in Micro and Small businesses. However there is a noted increasing participation of women in enterprises as a result of the necessity of them to play a more active role in income generating activities. This according to Olomi (2009) and Mbura (2007) is due to reduced real salaries and employment opportunities for men who had traditionally been the breadwinners. Thus this gap is keeping on reduced as time goes on and this is accounted by a number of pull and push factors as pointed out by Nchimbi (2002) that the decision by women to start business is not as a career but as a livelihood strategy.

From Table 2 it was found that most of operators of SMEs are youth aging from 35-44 years, this is in line with what Olomi (2009) observed that individuals within the age group of 30s-40s are more likely to do well in entrepreneurship. As for the level of education and its influence on the use of e- marketing among the small scale entrepreneurs, it was revealed the level of literacy was not very high in the study area as shown in Table 2. This implies that of the level of education and e-marketing adoption are closely related. As for the operating industry, most of the respondents were found to be involved in trade and manufacturing (38%). Besides that, other business firms were engaged in agriculture (13%), hotel and tourism (6%), entertainment industry (15%) and others (28%).

Table 2: Demographic Characteristics of Respondents

Category	Consumer's Demographic Variable	Frequency (n=120)	Percentage (%) of Respondents
Age of respondent	Less than 24 years	6	5%,
	25-34 years	43	35.8%,
	35-44 years	50	41.7%,
	45-54 years	12	10%,
	Above 55	9	7.5%.
Gender	Female	44	37%
	Male	76	63%
Level of Education	University level	32	27%
	Secondary level	52	43%
	Primary level	36	30%
The SME's industry	Manufacturing	45	38%
	Agriculture	15	13%
	Hotel and tourism	8	6%
	Entertainment	19	15%
	Others	33	28%

The extent of e-marketing utilization and other forms of marketing

Respondents were asked to state whether they are using e-marketing. Results in Table 3 shows that most of the respondents, amounting to 55% were found not to effectively use e-marketing while 37% were using. Of those who are using 15.6% had a higher usage rate. This implies that many of the small scale entrepreneurs do not use e-marketing in promoting their businesses where 66% of SMEs were found to use other forms of marketing their businesses which of course is caused by low level of internet utilization in developing counties as supported by EL-Gohan, Trueman and Fukukawa (2010), that, e-Marketing is still a relatively new concept, particularly for Small Business Enterprises that have limited resources and can ill afford to make unwise investments. Therefore, there is a need to have a much clearer understanding of e-Marketing problems as well as its opportunities for SMEs and how these technologies can be used to carry out the marketing process in a more effective way than a reliance on traditional practice.

Table 3: The extent of e-marketing utilization and other forms of marketing

e-marketing utilization among SMEs	Percentage (%) of responses in 5 Likert Scale				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
e- marketing is used by SME	7 %	30%	8%	28%	27%
The level of e-marketing usage in SME is higher	4.6%	11%	20.4%	39.6%	24.4%
SME use e- marketing more than other forms of Marketing	2%	10%	22%	43%	23%

The purpose of using e-marketing by SMEs

SMEs owners and operators were asked to rank (1-very important, 2-important, 3-somewhat important, 4-not important) of the four given reasons for e-marketing use in their businesses. The results of the study depicted that there are two main reasons which necessitate SMEs' use of e-marketing i.e. *increasing customer base and viability* and *communicating new and existing products and services* to actual and potential customers. This implies that only 20.1% of SMEs use e-marketing to enhance their competitiveness and Reduces operating costs in a form of marketing and communication costs as indicated in Table 4.

Table 4: The purpose of using e-marketing

Purpose	Percentage score	Level	Rank
Increasing customer base and visibility	42.7%	Very important	1
Increasing business competitiveness	6%	Not Important	4
Reduces marketing and communication costs	14.1%	Somewhat important	3
Communicating products & services	37.2%	Important	2

Challenges facing SME's adoption of e-marketing

The study was interested in knowing the challenges that face SME's in application of e-marketing, findings in Table 5 depicts that 69% of the respondents strongly agreed and agree that high costs that are associated with e-marketing limits its application, where as 8% disagreed and 23% respondents were neutral. This entail that the high costs that are associated with adoption of e-marketing is one of the major constraints among the SMEs. 85% of the respondents tend to agree and strongly agree that ICT infrastructure greatly limits the application of e-marketing, 10% disagree and strongly disagree and 5% were neutral. These findings tend to imply that to most SMEs ICT infrastructures limit e-marketing adoption. Findings in Table 5 illustrates that 80% of the SMEs established that ICT knowledge limits the adoption of e-marketing also about 18% were neutral and only 2% disagreed with this observation. This result is supported by Erdener, Tatoglu and Kula (2005), that, " Some of the major non-technical limitations that slow down the spread of internet-based EC among SMEs are as follows: first, SMEs are highly concerned with the start-up costs of developing EC in-house". There are four basic components of the cost involved with EC acting as significant impediments to EC adoption by SMEs. These include connection costs to the internet, the cost of adequate hardware/software, set-up and maintenance costs.

The study findings further reveals the absence of clear regulatory framework as one of the limiting factors for SME's e-marketing adoption where 66 % agreed and strongly agreed that the regulatory framework tend to limit their adoption and usage of e-marketing as business communities have not been exposed to the laws guiding the use of e-marketing and other ICT facilities. 6.7% respondents disagreed, 27% SMEs were neutral as they actually cannot tell if regulatory framework is existing and if it is a challenge to e-marketing usage due to their less knowledge about the regulatory framework in relation to e-marketing. It was evident from the study that 69% of the respondents strongly agree and agree that inaccessibility of internet facilities limit the application of e-marketing while 3% respondents disagreed and 28% were neutral. Statistically this gives an evidence of the huge digital gap among the SMEs in Tanzania.

Table 5: Challenges facing SME's in application of e-marketing

Challenges facing SME's in application of e-marketing	Percentage (%) of responses in 5 Likert Scale				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
High internet access prices limits the application of e-M	24%	45%	24%	8%	0%
ICT Infrastructure Limits the Application of e-M	18%	67%	5%	8%	2%
ICT knowledge limits the application of e-M	28%	52%	18%	2%	0%
Absence of regulatory framework to guide e-M	13%	53%	27%	7%	0%
Inaccessibility of internet limits the use of e-M	22%	47%	28%	1%	2%

Strategies to improve e-marketing

Respondents were asked to rank the strategies which may be adopted in order of what they consider to be important. The ranking was from 1 (most important) to 5 (less important). The top three ranked strategies are costs reduction in the costs of ICT facilities and Internet Services Providers (IPs), Creation of information sharing and more network facilities with higher speed, and offering training programmes on e-marketing among the owners and operators of SMEs. Table 6 presents the importance of the intervention strategies according to their respective mean values.

Table 6: Strategies to Improve e-Marketing

Strategies to Improve e-Marketing	Mean	Rank
Reducing costs of ICT facilities & IPs will promote e- marketing usage	4.03	1
More support by government and other stakeholders on e- marketing	3.72	5
Offering training programmes on e-marketing to SMEs	3.95	3
Mass awareness programs and increase in e-marketing usage	3.74	4
Creation of information sharing and more network facilities with higher speed	4.00	2

CONCLUSION, LIMITATIONS AND WAY FORWARD

Based on the findings of this study, e-marketing is vital for the growth performance and sustainability of SMEs. However operators of small scale businesses are experiencing a number of obstacles that inhibit SMEs adoption and utilization of e-marketing. These includes limited understanding of the potentials of e-marketing adoption, high cost of this technology adoption such as training to workers and external expertise, inaccessibility of internet facilities and absence of regulatory framework to guide e-marketing.

One major limitation of this study was the confidentiality and trust as some of the owners and operators of SMEs were reluctant to provide some information that they presume to be critical to their business rivals. Findings of the current study would have more authenticity if we could increase the sample size. This therefore calls for intervening strategies such as lowering costs of ICT facilities, Internet Service Providers to lower Internet access price, more support by government on promoting and encouraging SMEs to use e-marketing, education and training institutions should focus on offering necessary knowledge on ICT and e-marketing for small operators. Other recommendations of this study includes supporting initiatives by the Government and other stakeholders in enhancing mass awareness programs and increase in e-marketing usage, creation of shared portals that will facilitate information sharing and more network facilities among the business communities.

REFERENCES

- American Marketing Association (AMA). (2013). American Marketing Association Board of Directors, (Approved July 2013) retrieved from <https://www.ama.org/aboutama/pages/definition-of-marketing.aspx> on 27th May 2015
- Bruno, A. V. and Leidecker, J. K. (1988). *Causes of new venture failure: 1960's vs. 1980's*. Business Horizons, 31 (6), 51-57.
- Carl-Erik Särndal; Bengt Swensson; Jan Wretman (2003). *Model assisted survey sampling*. Springer. pp. 9–12. ISBN 978-0-387-40620-6. Retrieved 2 January 2011.
- Doha Bank (2011). The 21st Century Belongs to the SMEs. (Source: <http://www.dohabank.com.qa/1/en/MediaCenter/PressRoom/tabid/631/articleType/ArticleView/articleId/280/The-21st-Century-Belongs-to-the-SMEs.aspx> visited on 26th January, 2015.
- El-Gohary, H. (2010). E-Marketing - A literature Review from a Small Businesses perspective, International Journal of Business and Social Science, 1 (1) 214-244.
- European Commission (2006) Information Society Directorate-General
- Gupta, C. B. & Khanka, S. S. (2008). Entrepreneurship and Small Business Management, Sultan Chand and sons, 23 Daryaganj, New Delhi.
- Geoffrey H., Ferrel, O.C. and Linda F. (2008). Business in a changing world. McGraw-Hill/Irwin Paperback Paperback
- Hoffam, D. L., Novak, T. P., and Peralta, M., (1997). *Building consumer trust online. Communication of the ACM*, 2(4), pp 446-65.
- Holt, D. H. (2006). *Entrepreneurship New Venture Creation*, Prentice Hall of India Private Limited, New Delhi.
- Kazungu, I., Ndiege, B. O., Mchopa, A. and Moshi, J. (2014): Improving Livelihoods through Micro and Small Agribusiness Enterprises: Analysis of Contributions, Prospects and Challenges of Nursery Gardens in Arusha Tanzania, International Journal of Business Management, ISSN 2222-1905 Vol. 6 No 9 2014
- Kariuki J G, (2012). *An Assessment of Internet Usage on Small and Medium Enterprises (SME's) In Nakuru Town Consistency*: Kabaraak University. September 2012.
- Kotler, P. (2011). Reinventing Marketing to Manage the Environmental Imperative. Journal of Marketing: July 2011, Vol. 75, No. 4, pp. 132-135.
- Matikiti R, Afolabi B, Smith W, (2012). *Empirical Evidence on the Usage of Internet Marketing In the Hospitality Sector in an Emerging Economy and Its Relationship to Probability*. International Review of Social Sciences and Humanities: Vol 4, No 1(2012).181-197.
- Mbura, O. K. (2007). The Role of Entrepreneurial Networks in Acquisition of Marketing Information (MI) Resources, Selected small manufacturing firms in Tanzania, PhD Dissertation, University of Dar es Salaam.
- McCartan-Quinn, D. & Carson, D. (2003). *Issues which impact upon marketing in the small firm*. Small Business Economics, 21(2), 201.
- Nchimbi, M. (2002). "A Comparison of Male and Female Personal Characteristics, Start-up Motives and Perception of Success" PhD Dissertation, University of Dar es Salaam
- Mutua, J., Oteyo, I. N., and Njeru, A. W., (2013). The Extent of E-commerce Adoption Among Small and Medium Enterprises in Nairobi Kenya. International Journal of Business and Social Science: Vol. 4 No. 9 August, 2013.
- Nganga S. I. and Onyango G. M. (2011). *Collective Efficiency and Its Effects on Infrastructure Planning and Development for Small Manufacturing Enterprises in Kenya*. School of Business and Public Management, Mount Kenya University Vol. 1, No. 1; April 2011 *International Journal of Business and Public Management*: 168-193.

Nielinger, O., (2003). *ICT utilization of small and medium enterprises in Tanzania: The case of Tanzania* institute of African Affairs, Hamburg April, 2004.

Njau, J. N., and Karugu, W., (2014). *Influence of E-Marketing on the Performance of Small and Medium Enterprises in Kenya: Survey of Small and Medium Enterprises in the Manufacturing Industry in Kenya*. International Journal and Law Research 2(1):62-70 March, 2014.

Olomi, D. R. (2009). *African Entrepreneurship and Small Business Development, Context and Process*, Otme Company Limited, Dar es Salaam.

Smith, P. R. & Chaffey, D. (2005), *E-Marketing excellence: at the heart of e-Business*, Oxford, UK, Butterworth Heinemann

Strauss, J. & Frost, R. (2001), *E-Marketing*, NJ, USA, Prentice Hall McGraw Hill Irwin. United Kingdom.

Sparks A and Thomas B. 2001: *guse of internet as critical Success factor for the marketing of welshi Agri food SME's in the nearly first century*. British Food Journal 103(5):331-347.

URT, (2003). *Small and Medium Enterprises Development Policy (SMEs) Policy*.

Yamane, T. (1967). *Statistics: An Introductory Analysis*, 2nd Edition, New York: Harper and Row.