

# **Strategic Marketing Planning in a Small Enterprise: A Case Study of a Construction Company in El Salvador**

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## **ABSTRACT**

The selection of strategy for a company is a serious matter and it is going to define whether the company will succeed or fail. For that reason, it is necessary to create a strategic plan that will help a company to fulfill its potential. This paper is a marketing plan for a construction company located in El Salvador. To gather the information necessary, a qualitative research was conducted as well as interviews to support or disprove this study. The results show and suggest the changes that are mandatory to improve the performance of the company and have a more successful business. The data collected can help small and medium companies in El Salvador to create a marketing plan that can help them improve their performance.

**Keywords:** *Business and Construction Industry, Small and Medium Enterprises from El Salvador, Strategic Planning, Effective Marketing Strategy, Qualitative Research*

## **1. INTRODUCTION**

Alvarenga's Construction Company is a family-run business dedicated to the execution of urban development projects and maintenance of civil works. The company was established in 2002 in El Salvador, nowadays it has been operating for 15 years. The company was funded by Israelian Antonio Alvarenga Quijada, who has been working on small and large-scale construction projects. For the past couple of years, the company has been focusing on residential construction. As the products and services in the construction industry become more and more similar, the switching costs for customers are becoming more viable and the competitiveness in the industry is more challenging, the company's unique value proposition becomes critical to its success. Alvarenga's Construction Company plans to expand their market on more public-bidding projects letting it to participate in more public works hand to hand with the government of El Salvador. In order to be successful within the construction industry, the company must compete thoroughly using their competitive advantages to differentiate their service from other construction companies. The construction sector is quite important in the development of the economy of any country, because it improves the country's competitiveness. The economy of El Salvador based on its trimestral Gross Domestic Product (GDP) and Volume Index of Economic Activity (VIEA) shows growth during the 2016 first-quarter. Even though the participation of the construction sector is relatively low in the GDP (2.6%), its development is important to determine the Salvadoran economic cycle and it was one of the sectors that was more affected during El Salvador's economic crisis. During Q1 2016, the industry grew 2.3%,

accumulating three consecutive quarters. The purpose of this study was to set the marketing goals and identify the marketing strategies and propose a marketing plan to help the company improve its operations management and cost structure to ultimately increase its profitability.

## **2. LITERATURE REVIEW**

This section gives a summary of the literature that is relevant for the research framework in the following chapter. This study takes into consideration regarding previous scholars' research.

### *2.1 Strategic Planning Process*

According to Koontz, O'Donnell, and Wehrich [9], strategies are the detailed plans of action and utilization of capabilities and resources to accomplish organizational objectives; the plans of an organizational changes by employing effective resources to achieve the objectives; determination of the long-term goals of an organization and the implementation of courses of action and allocation of resources required to accomplish the goals. The article written by Koontz, O'Donnell, and Heinz Wehrich [9]: The Tows Matrix-A Tool for Situational Analysis suggests following a framework to create a strategy and Wehrich's framework [9] is used as a basis for this case study. For an effective strategic planning, the inputs need to be carefully studied, because the inputs involve the people, capital, managerial, and technical knowledge skills of a company. It is important to understand the position of the company, their past and present position in enterprise's profile

development. The next stage in strategic planning process is the analysis of strengths, weaknesses, opportunities, and threats (SWOT analysis). In the external environment analysis, threats include the problems about inflation, technological changes, and government's actions. The different factors that can be categorized as either threats or opportunities can be grouped into economic, social, and political factors, products and technological factors, demographic factors, markets and competition.

### *2.1.1 External Analysis*

The development of external analysis in the construction industry will rely on the PESTEL analysis, in which the aspects of political, economic, social, technological, environmental, and legal values are also studied.

#### *Macro environmental analysis of the industry*

The general state of the economy affects the strategic planning, it is necessary to understand the country's economy, because it is going to have a major impact in the company's business activities. Because the business strategy is also going to be affected by social developments, it is important to examine the different needs of consumers and the consumers' culture present in the industry. Managers also need to follow the federal, state, and local laws and regulations, that is why a thorough analysis of El Salvador's political factors was conducted in this case study. In a company, products need to be matched to current technological changes, so it can meet the demands of any kind of costumers. With technological adjustments, it is important to remember that product and service innovation needs to be continuous to ensure the existence of the company's competitive advantage.

#### *Porter's Industry Analysis*

Porter [14] argued five competitive forces that shape a corporate strategy. Porter's industry competitive analysis basically is determined upon five external factors including bargaining power of suppliers, bargaining powers of buyers, rivalry among existing competitors, threat of new entrants, and threat of substitute products or services. Porter's industry analysis is focused on comparing the relative potentials within industrial competition for superior business performance in the construction industry. It helps in the strategic planning for the construction company to analyze the product, business partners and location segments of the construction market to identify areas in which the company can outperform than its competitors.

### *2.1.2 Internal Analysis*

The internal environment of a company consists of variables within the company, of which the company's management cannot influence in short-run [17]. These variables appear in the enterprise context in which the work

occurs. These include the company's structure, culture, and resources. The internal strengths and weaknesses may vary among different companies, but they can be categorized as (1) Management system and organizational culture. This involves not only the managers but the human resources and deployment. The planning and control system of the organizational structure and climate are important for the organization's success; (2) Operations. For research and development capabilities, the operations need to be analyzed (e.g. marketing strategies must be assessed in the aspects of product development, promotion mix, distribution channel, brand protection, competitive pricing, target customer identification, service quality, and company's image); (3) Finance. An evaluation of the company's strengths and weaknesses must be conducted in the fields of capital structure, financing sources, profitability, tax condition, financial planning, as well as the accounting system; (4) Others. Factors like inventions, patents, and company's image may be strange or may be outstanding during a certain time-period.

### *2.2 SWOT Analysis*

It is common to recommend companies to identify their strengths, weaknesses, opportunities, and threats, but it should also be combined to create different strategic choices. This combination is known as the TOWS Matrix. The Matrix is composed with the enterprise profile dealing with some basic current issues regarding its internal and external environments. It also contains the information of business opportunities or challenge in respect to external environment. Additionally, the firm can identify its strengths and weaknesses by utilizing the internal resources of the enterprise. Based on this information, companies can create the activities necessary to formulate strategies aligned with effective tactics in order to achieve the company's competitive objectives and its advantage. Furthermore, contingency plans are also required to be prepared for the Matrix.

### *2.3 The Model of Marketing Planning Process*

It is important to collect the available data to study and analyze the industry in order to create a successful strategy for the company. Smyth [10] stated that many companies initiate their marketing plans by using SWOT analysis, because it is a valuable tool for marketing-related decisions in the industry. The Porter's Five Forces' analysis helps evaluate the market position, strengths, and threats in the construction sector. The PESTEL analysis helps understand the political, economic, social, technological, environmental, and legal value in the construction sector. A company needs a proper marketing strategy that address two key-factors: STP (segmentation, targeting, and positioning) and a proper marketing strategy divided in the company's products, prices, place, and promotion.

## 2.4 Segmentation, Targeting, Positioning (STP)

### Segmentation strategy

Smith's [16] defined market segmentation as dividing a heterogeneous market into more homogeneous sub-groups based on some common customers' characteristics such as age, location, time of purchase, and purchase frequency. There are four strategies used for market segmentation purpose: (1) Undifferentiated marketing, the strategy firm can apply when there is little diversity among the market segments; (2) Concentrated marketing, the strategy firm can apply when a firm selects one segment, deploy an right marketing-mix, and then directs its marketing efforts and resources toward that segment exclusively; (3) Differentiated marketing, the strategy firm can apply when a company selects more than one target market segment and develops individually the marketing-mix for each segment; and (4) Customized marketing, the strategy firm can apply when a market is very diverse, thus the firm tries to deploy a different set of marketing mix to satisfy each customer's unique set of needs.

### Target Market

Dibb and Simkin [5] defines target market as "a decision of which consumers in a product-market towards which a company will aim its marketing program and positioning strategy." The four steps in choosing a target market strategy are: (1) Deciding how to create niche market in the product-market; (2) Describing the consumers / organizations in each niche market; (3) Evaluating the target alternatives; and (4) Choosing the right strategy in a target market.

The construction sector is mostly involved in public biddings, the target to which a company can be directed in the construction industry is divided into two categories: (1) public segment and (2) private segment. In El Salvador, construction companies have better opportunities when they work with the government. In this country, the public biddings are conducted by different ministries, e.g. Ministry of National Education, Ministry of Public Works, Ministry of Agriculture, Cattle and Food, etc.

### Positioning

Doyle [6] defined positioning strategy as "choosing the target market segment that describes the customers of which a business will seek to serve and the choice of differential advantage that defines how it will compete the rivals within the segment." On the basis of this definition, the positioning strategy may be divided into three sub-elements: (1) Customer targets; (2) Competitor targets; and (3) Competitive advantage.

In the construction sector, there are two main variables that affect the competitive advantage of any company: (1) The

quality, and (2) The services a company is able to provide. The quality a company provides refers to three main factors: the materials a company uses in the construction project, the implementation of them, and every detail that can add value to the customers. The services refer to a variety of services that a construction company can offer. Another factor that affects a company's positioning in the construction industry is a consumer-centered position. This is associated with the products and services a company offers to satisfy each client's needs.

## 2.5 Marketing Strategies

Marketing-mix is one of the main components of marketing strategy [7][8]. Kotler [12] defined marketing-mix as "the set of marketing tools that the firm uses to pursue its marketing objectives in the target market". It is important to mention that in the construction sector, because there is not only a tangible product, but there are also services a company can offer. In fact, service is a sub-category of products. Mochtar [11], Chen and Messner [1] believed that the actual product in construction is the service that a company offers by selling their "expertise".

## 2.6 Marketing Planning Model for Researching SME's

Carson [2] identified six marketing models to be used in evaluating small firms' marketing performance. They are as: (1) The marketing limitations model; (2) The level of organization model; (3) The planning versus the model; (4) The marketing planning adapted for small firms model; (5) The stages of marketing development model; and (6) The levels of activity model.

Marketing planning is important to the survival of all businesses not matter what size they are, but the way the marketing and marketing planning are implemented in small companies is different from the one in larger companies. Acknowledging this, the marketing model adopted for this case study is accepted within the traditional marketing theories, but the framework is adapted to incorporate all different ways that a small company should implement to their marketing planning process. This study focused on the level of activity marketing model. Carson and Cromie [3] created a marketing planning model to be taken into account with the nature of small firms which suggest that it may not be sufficient to take elaborated models of marketing planning process and try to implement them to all companies. This model focuses on two key-areas, which are external and internal issues. Internal analysis is important to study the company's past performance in order to have a better understanding of the company and also the industry, as well as to figure out what procedures might really work and which ones should be changed. For external analysis, the study of key factors from El Salvador are important, which are the country's economy, the social and cultural issues, the market on which the company is

competing, and also the direct and indirect competition in the industry. Political and legal factors that affect the company and the industry need to be analyzed to assure that the company is complying with every law in El Salvador. Finally, the technological developments, that may help the company have a competitive advantage over its competitors, is a factor that is also going to be analyzed.

### **3. RESEARCH FRAMEWORK AND METHODOLOGY**

A research design is a logical plan consisting of an initial set of questions to be answered, and some sets of conclusions (answers) about the questions [18]. This study applies the Yin's case study research design and methods and determine the Alvarenga's Construction Company, one of SME's in El Salvador, as the case for qualitative research study. For case studies, four components of a research design are especially important [18]: (1) A study question. This study will focus on the questions of "why does the case company have to grow and change by implementing strategic marketing plans?" and "how does the company effectively organize a marketing plan?"; (2) Study propositions. Each proposition draws an attention to something that should be examined within the scope of study. This study adopted the Kotler's Model of Marketing Planning Process [12] and the Julian Pace's Marketing Planning Model for Researching SME's [15] as a guidance; (3) Unit of analysis. This study selected the Alvarenga's Construction Company as the unit of analysis to investigate the company's business environment and aimed to write-up an effective marketing plan for company's growth and its organizational changes; (4) The logic of linking and linking the data to the propositions and the criteria for the interpretation of findings. This study used the Julian Pace's Marketing Planning Model for Researching SME's [15] as a framework to collect the data and conduct the analysis.

This study's evidence comes from four sources: (1) Documents that are used to corroborate the progress and internal records of the company which are provided by Alvarenga's Construction Company, and other documentations forms e.g. formal studies of similar cases and articles appearing in mass media; (2) Archival records used in this study are the clients' service records, organizational records (budgets and personnel records), and data collected about the company's employees; (3) A total of 8 interviewees, which were carried out in El Salvador to gain the necessary insights and gave the interviewer an access to corroborate the sources of evidence; (4) Participant observation enabled the researcher to learn and gain an insight of the activities of the company under study in the natural setting through observing and participating in those activities.

After collecting all the necessary information, the next step was data analysis using a SWOT model in order to identify the strengths, weaknesses, opportunities, and threats of the

company, while considering the external and internal environments that affect the company's performance.

This case study also possesses different sources of data to show its authenticity; *literature review* containing the facts taken from official government's documentation, *participant observations* from researcher's personal experience living and working in El Salvador, and *in-depth interviews* with the company owner, managers, and employees, and a government employee working in El Salvador's Ministry of Public Works.

### **4. EMPIRICAL FINDINGS**

One of the findings in this study that is taken into account, is that the Alvarenga's Construction Company cannot be put in a specific category, either "products" or "services" accurately describing what the company does. According to the interviewees, there is a higher demand on project-bidding rather than working with specific clients (private construction projects). Public development projects generally offer higher pay-outs. However, they also tend to have very strict regulations that often lead to expensive penalties, which construction companies are paying back to the government agencies. Although the government's employee interviewee (Interviewee 4) stated that working with the government has more remunerations that working with individuals, Interviewee 1 and 2 stated that construction companies in El Salvador tend to work with more and more individuals or in projects financed by the companies themselves, because they believe that there are more beneficial financial opportunities. "Currently we are working on two residential projects and developing an apartment complex, we were continuously participating in public biddings with the government, but there were so many other companies participating too that the probabilities of winning were really low.", as mentioned by Interviewee 1. Interviewee 3, on the other hand, stated that there are more opportunities for labors in construction companies that have continuous project-bidding, than in companies that work with private clients "When a construction company is working with the government, the projects are bigger and our jobs last longer. If the company is focused in residential projects, sometimes the projects will last less than 6 months.", said Interviewee 3.

Relationships in the industry are very important in every aspect for a construction company in El Salvador. If a construction company has a close relationship with private clients, there will be a bigger opportunity to obtain new projects from the same clients and reduce the transaction costs. Also, if a construction company has a close relationship with its sub-contractors and suppliers, the products and services will be delivered more efficiently. "Usually, we work with the same suppliers, they give us discounts and provide us with the delivery service at a lower cost.", says Interviewee 1. Finally, if a construction company has a good relationship with people that work with the government e.g. politicians, construction companies

have a bigger opportunity to obtain projects and get help when a company has any problem related with its projects.

From the literature, it is evident that the concept of competitive advantage achieved by Porter is shown to have some application in the construction industry. A finding that can give the Alvarenga's Construction Company a competitive advantage in the industry is that the marketing activities can help promote the company's image by becoming a renowned company, and currently in El Salvador there are not many construction companies that possess marketing strategy. If a company cares more in promoting its brand and image, it has more possibilities to win a bidding-project based on the company's high profile and to increase its profits by asking for premium prices. Based on this result, the Alvarenga's Construction Company should have a resource in its marketing department. *"Our first idea was to hang banners in every residential construction site with the name of the company and the phone number, so clients may contact us if they need any kind of information."* as explained by Interviewee 1, at the moment there is a non-existent promotion strategy in the company. Therefore, the company needs to commit to a marketing project in order to focus on their customers' value. By doing this, the company can stop focusing in single project profitability and focuses in the future that will allow it to have continuous job opportunities that currently are not the case. The marketing department of the company needs to have a close relationship with the managers so that the clients can feel their important value in every project that they choose to work with the company.

## 5. CONCLUSION

Based on the findings and the interviews, it can be concluded that the company needs to focus more in private sector rather than in public sectors. This is especially because in El Salvador during the elections, the government has proven to be unstable. To promote the Alvarenga's Construction Company in the private sector of construction industry, this study suggests to use the resources as: (1) Online media such as Facebook ads; (2) Outdoor advertising such as ads in billboards. Another way to promote the company is by participating in trading fairs such as ConstruExpo, which is a big fair that takes place in El Salvador during April. Twelve countries including the United States, Canada, and Mexico are part of the fair every year. In addition, the Alvarenga's Construction Company can join an association such as Construction Chamber of El Salvador (Cámara Salvadoreña de la Industria de la Construcción, CASALCO) to help the company to obtain contacts with suppliers and build relationships with them in order to lower the costs, also it is going to help the company to expose itself to more business opportunities.

The Alvarenga's Construction Company has proven to be successful during a decade and a half. However, the time is changing quickly and the competition is becoming fiercer than ever. In order to survive and grow, it needs to change

and adapt to the internal and external forces that affect it. After conducting careful analysis of quantitative and qualitative data, including interviews and financial records, this study concluded that the company should shift its focus more towards the private sector. The marketing mix should be divided in the following way: 65% private sector and 35% public bidding. To increase market penetration and secure a higher market share, the proposed marketing strategy should focus on creating stronger ties with the suppliers and shortening the supply chain by participating in trade fairs, joining an industrial association, as well as promoting the company's public image in social media, and creating a stunning website to attract and secure potential customers.

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