Very Small Enterprises as Professional Customers: A Qualitative Study

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Abstract

This paper discusses the findings of a qualitative study carried out in the French automotive, construction, and hairdressing sectors concerning the relationship expectations and behaviors of very small enterprises (VSEs). While VSEs represent more than 90% of European enterprises, there has been little research on these business customers. By defining VSEs' characteristics and the role of relationship marketing in studying these targets, this research sheds light on the buying behavior of VSEs. The results of the qualitative study enable the development of a relationship marketing model for the VSEs in each sector, and an identification of the key components of relationships for this target (interpersonal, brand, and offer). The paper concludes with a cross-sectoral model emphasizing the necessity of improving our knowledge of the individual characteristics of VSE owners/managers as an area of future research.

Keywords: Business-to-business, Customer relationship, Relationship marketing, Very small enterprises

1. Very small enterprises and marketing

1.1 Observation: there has been little marketing research on very small enterprises

Small and medium enterprises (SMEs) are contrasted with large enterprises according to a criterion of size, e.g., the number of persons employed. For many years researchers and managers have treated the SME market segment as homogenous. However, there are key differences between a company with 15 employees and a company with 200 employees. In fact, a company with 200 employees (categorized as an SME) has much more in common with a large enterprise having 1 000 employees. Treating the SME market as a single homogenous unit tends to obscure a more segmented approach that leads to a new definition of the market (Goff, Harding, Shah, and Singer., 1998). As competition rises in the medium and large enterprise market segments, very small enterprises (VSEs) [defined as having fewer than ten employees, and representing more than 90% of European companies – Note 1] are becoming strategic customers for major business-to-business companies, which implement relationship programs to retain these "new" customers.

In this context, relatively little marketing research has addressed small businesses. For example, only 22 papers published in peer-reviewed journals dealing with the keywords "relationship marketing", "business-to-business", and "small business" were found on EBSCO in May 2008 – see Note 2 for details of the database consulted: 130 106 and 1 731 articles respectively were referenced under the "business-to-business" and "relationship marketing" keywords .

< INSERT TABLE 1 >

Most of the references identified on EBSCO studied relationship marketing as a marketing practice employed by small and medium enterprises [SMEs] (Coviello, Winklhofer, and Hamilton. 2006, Goff et al. 1998, Hutman and Shaw 2003, Zontanos and Anderson 2004), examining for example the owner's attitude to the concepts of segmentation, targeting, and relationship marketing (Wright, Martin, and Stone, 2003) or the skills needed by the entrepreneurial small firm owner for effectively using the Internet to manage its customer relationships (McGowan, Durkin, Allen, Dougan, and Nixon, 2001).

Robert (1996) studied SMEs through inter-firm cooperation as a condition of small-firm success, as in the activity-actors-resources concept used by the IMP Group (Hakansson and Snehota, 1995). Lastly, other researchers have studied small businesses in the banking industry (Colgate and Bodo 2005, Ennew 1996, Lam and Burton 2006, Madill, Feeney, Riding, and Haines, 2002), and have shown that relationships are important in explaining small business customers' behaviors. But no one has specifically studied VSEs as customers or their purchase of goods, e.g., automotive spare parts, shampoo, or construction materials, rather than services such as banking.

Relationship marketing is a useful research field in studying VSEs. The lack of research in this area might suggest that VSEs are like other businesses and require a traditional business-to-business approach, but an improved definition of VSEs illustrates the opposite.

1.2. VSEs' unique characteristics

Dexter (2002, Dexter and Behan, 1999) defines a VSE as a simple economic decision unit. In an effort to segment business markets, he argues that small business customers are emotional, unlike medium and large enterprises. Although the simplicity of the decision unit is real, the characteristics of VSEs are more complex. VSEs can be defined via five criteria (Bentabet, Michun, and Trouvé, 1999): dimensional (very limited number of persons working in the firm); management (centralized in the owner's hands); functional (the manager decides strategy, operators and employees are versatile); informative (a rich but informal informational system, mainly oral, environmental, and team-dependent); and strategic (strategy is intuitive and rarely formalized). This illustrates the centrality of the owner/manager in the VSEs functioning.

Thus VSEs are not simply "large businesses" in smaller form, and merit a specific business-to-business approach. The VSE Owner's centrality is the source of a certain confusion between the firm and the individual who runs it. This confusion constitutes a challenge for the marketer in targeting and serving these customers.

Based on this definition of the VSE, this paper seeks to understand VSE relationship behaviors with their suppliers through four research questions and a qualitative study.

1. What are the expectations of VSE owners/managers in terms of customer relationships?
2. How do they perceive their suppliers' ability to meet their expectations?
3. What are the behavioral and relational consequences?
4. What are the determinants of their behaviors?

2. Theoretical background: looking for a business-to-business model appropriate to VSEs

Interestingly, from an historical point of view the first business-to-business models were derived from business-to-consumer ones – for example Sheth's 1973 model, derived from Howard and Sheth's 1969 model. At that time, business-to-business decision models for buying were less complex than recent ones, which make them somewhat more matched to VSE characteristics, e.g., a single decision maker in charge.

2.1. From transactional models…

Historically, business-to-business marketers have studied exchanges between two or more firms from a transactional viewpoint. Among the most quoted models, we considered works by Robinson and Farris (1967), Ozane and Churchill (1971), Webster and Wind (1972), Sheth (1973), and Choffray and Lilien (1978) in order to identify their strengths and weaknesses in gaining an understanding of VSEs' buying behaviors. For example, the BUYGRID model (Robinson and Faris, 1967) has been criticized because of the absence of any representation of a buying center. However, in the VSE context the owner is the buyer and the buying center does not exist. This lack is then an advantage in studying VSEs. The Sheth (1973) model emphasizes the central role of the individual in the buying process and lists all the variables that may influence his/her buying behavior. However, the low status accorded to the organization (an exogenous variable) cannot fully resolve the confusion between the firm and its owner/manager.

Among these works, conflict resolution (Webster and Wind, 1972) is of the utmost interest. VSEs as industrial buyers experience high uncertainty and try to minimize perceived risk. Their owners/managers cannot know all of the supply possibilities, or all the consequences of their decisions. This early model implies a real buying strategy, and explains the importance of buying centers in organizations. If the influence of the buying center limits the ability of this model to explain VSEs' buying behaviors (such buying decisions are often simplistic, as we will see in the qualitative study), risk avoidance and buying strategies could take another form.

2.2. … to relational models.

Business-to-business marketing has changed considerably since the mid 1960s and 1970s. Relationship marketing has emerged, following the article by Dwyer, Schurr, and Oh (1987) and the IMP group's work, e.g., Hakansson 1982. A consensus has emerged regarding the key concepts of business-to-business relationship marketing: trust (Donney and Cannon 1997, Moorman, Zaltman, and Desphande 1992, Morgan and Hunt 1994), commitment (Dwyer et al 1987, Morgan and Hunt 1994), satisfaction (Anderson and Sullivan 1993, Fornell 1992), and dependence (Emerson 1962). These concepts have been studied in both business-to-business and business-to-consumer research. Palmatier, Dant, Grewal, and Evans (2006) have synthesized the relationship-marketing studies published in the marketing area; their meta-analysis incorporates the customer, the supplier, the dyad, relationship mediators (satisfaction, trust, commitment, etc.), moderators, and their consequences for the customer's behavior. This work could be used as a guide for studying VSE behavior.

3. Research Methodology

Since this research focuses specifically on VSEs and their relationships with suppliers of goods (e.g. the purchase of shampoo, hairdryers, scissors, etc. by hairdressers or the purchase of aftermarket auto parts by auto repairers), the study was primarily qualitative in nature

The lack of research dealing with VSEs as customers led us to conduct qualitative research in order to propose a conceptual framework (Glaser and Strauss, 1967), so as to better understand VSE behaviors and to guide further research. Our main aim is to uncover the views and experiences of VSE owners/managers, rather than to test an *a priori* model.

Data were generated via in-depth qualitative interviews with 21 VSE owners/managers and nine suppliers or prescribers on the French market. Three sectors of activity were studied (automotive, construction, and hairdressing) in order to improve the study's validity. The interviews were semi-structured, based on an interview guide dealing with the VSE, its supplier(s), and the relationship; they lasted one hour on average. The interviews were studied by thematic analysis. In order to assess its reliability the qualitative material was double-coded (Miles and Huberman, 1994) by a second researcher and a marketing manager from a business-to-business firm. The inter-coder reliability almost reached the desirable range of 90% agreement, thereby allowing us to examine the cases where disagreements were observed.

4. Findings

4.1. A VSE relationship model

The automotive (five dealers and five VSEs – two independents + three manufacturer affiliates), construction (four dealers or prescribers and six VSEs), and hairdressing (ten VSEs – five independents + five franchisees) sectors produced three different but concordant results. We focus only on the VSE data for this work. The dealers' and prescribers' materials were used to improve understanding during interpretation of the results.

Seven main themes emerged from the automotive sector (listed in Appendix 1a), eleven themes from the construction sector (Appendix 1b), and seven themes from the hairdressing sector (Appendix 1c), allowing us to construct three relationship models applicable to VSEs in these three sectors (Appendices 2a, 2b, and 2c respectively). The structures of the relationships are similar, but each sector displays characteristic elements. Some are due to the environment (e.g. legal in the construction sector), or specific selling structure (three levels of suppliers are clearly identified in the construction sector); others rely on the brand attachment and business-to-consumer relationship concepts (Lacoeuilhe 2000).

Qualitative analysis of these three areas enabled us to identify several factors affecting the customer/supplier relationship in the VSE business-to-business environment. Surprisingly, the hairdressers are the only respondents who mentioned their end customers' needs to explain some of their purchasing choices. Rather than the differences that may exist between the automotive, construction, and hairdressing sectors, their commonalities are interesting because they provide an overview of the key elements of the customer/supplier relationships in this specific business-to-business environment.

Many key variables such as satisfaction, trust, and commitment (e.g., Donney and Cannon, 1997) are reflected in the comments of most interviewees. The concept of dependence is also apparent. This dependence may be real, e.g., contractual agreements between hairdressers and national brands, or created by the power of the brand (Mudambi, 2002). Here we can cite the example of the hairdressing sector where a great number of managers felt compelled to reference the market-leading brand, noting that the end customers expressed a real demand for it.

4.2. The key elements of the relationship

It is important to note that interpersonal items, brand, and offer/supply are the key elements of the customer/supplier relationship. These elements are essential and appear both spontaneously and systematically in the interviewees' replies. However, their hierarchy is particularly volatile from sector to sector and from one individual to another. In addition, the psycho-sociological characteristics of each individual complicate the development of a typology.

4.2.1. Interpersonal

Interpersonal means all the human relationships which may develop between two individuals. Among the three key elements, it is the most difficult to assess because it is based on the emotional and irrational. Nevertheless, we must acknowledge the very important position accorded to interpersonal elements in the case of a direct sale, which will influence the choice of supplier, either positively (loyalty) or negatively (failure). For the supplier the stake is therefore not only to be appreciated or not but also to express it in monetary terms: the challenge for marketers is huge.

4.2.2. Brand

As regards the brand, VSE owner/manager behaviors range between emotional and rational, which may be seen as an illustration of the duality of the business-to-business/business-to-consumer relationships mentioned above. Managers consider the effect of brand to be a real guarantee, both objectively and subjectively:

- An objective guarantee is the assurance of after-sales service;
- Subjective guarantee refers to the pledge of quality that branded products represent at two levels: for the professional who will use the branded item and for those who will resell it.

It is interesting to note that when these expectations are satisfied, this may lead some respondents to declare an unwavering loyalty to the brand selected—a declaration that may be sincere, but perhaps not altogether clear: the omission of the other key elements does not diminish their importance.

4.2.3. Offer

Of the three elements cited, offer concern is probably the most obvious in its content because it represents the most "professional" expectation. Offer may contain some surprises:

- The contents of the offer. Products and prices define the core elements of the offer and remain very important for VSE owners/managers. Relationship to products remains traditional: VSEs look for technical products, whose trademark is a guarantee of quality. If price is important, it is not only based on the product itself but on all the associated services (delivery, advice, availability, and so on).
- The place of distribution supply. In the various sectors studied, the manufacturer operates alone or in tandem: either it distributes its own products, or it uses an indirect distribution channel. The relationships with the manufacturer or brand are very often marked by the relationships between the entrepreneur and the distributor (which arises as the guarantor of service quality and price negotiation).

While it seems easy to identify the expectations directed towards the offers (which are more concrete than those related to the interpersonal and the brand), we must not stop at their mere appearance, because here too affect plays a role and can easily lead to disappointment or reasoned loyalty (Paavola, 2006).

4.3. Some individual determinants

We have noted above that there is an affective component in the relationships and in the way in which our informants evaluate their suppliers. This is consistent with the work of Dexter (1999), who describes VSEs as emotional economic decision units. Moreover, some individual determinants can explain certain differences among our respondents: age and gender are common issues, but certain determinants appear more differentiating. The professional background of the owner/manager, the legal status of the firm (for example, it appears that people who have not chosen a limited liability status are more personally tied to their firm: “my company is my life”), or if they are running a family business.

The topics for further research that we were able to derive from these individual determinants will be part of the following discussion.

5. Discussion and outlook for future research

5.1. Discussion

This exploratory phase corresponds mainly to our initial research questions, because it allows us on the one hand to develop a list of relational expectations and on the other to compare them with the practices of suppliers in order to explore their impact on the quality of the relationship and the desire to maintain this relationship. The comparison of the main findings from this qualitative phase with the work done by researchers in relationship marketing led to the development of an integrated model diagram (Figure 1) depicting the satisfaction of customers, its impact on the mediators of the relationship (Palmatier et al. 2006), and its future consequences.

Compared with the literature on business-to-business and relationship marketing, the qualitative methodology showed a number of points of agreement:

- There are different levels of relationship analysis such as interpersonal, brand, and company (dealer and manufacturer) levels;
- The brand attachment identified as a business-to-consumer concept (Lacoeuilhe, 2000) has been found particularly applicable to the respondents in these three sectors. This commitment reflects a heuristic choice that is

the branded product for the managers interviewed;

- The relationship path through relational variables such as satisfaction (a criterion necessary but not sufficient for precision), trust (in products, in people, in the company), and dependence is confirmed;
- Risk-reduction strategies (Webster and Wind, 1972): because the purchases of a single VSE do not weigh greatly in the commercial balances of most suppliers, the small business customer tends to identify one or two reliable suppliers through which it seeks to satisfy its entire commercial demand. Its aim is to offset its small purchasing power by maximizing its weight with these suppliers and be recognized as a “good” customer that the supplier should serve well;
- The preferred mode of relationships. There seem to be as many relationships as customers interviewed: the relationship cannot be reduced to these variables and must incorporate the psychology of the consumers, i.e., the VSE owners/managers.

Unlike larger models of business-to-business marketing, but not surprisingly in light of our analysis of the functioning of VSEs, the relationship and the choice of suppliers are decided on an individual basis. Collective decision-making and even less the existence of buying centers (Johnston and Bonoma, 1981) do not emerge from the transcribed conversations of the VSE representatives interviewed.

If this conceptual framework seems rather simple compared to larger models of business-to-business marketing, its uniqueness lies in the relationship referents. The leader of a small company acts both as an individual and as an enterprise in a relationship with a commercial supplier. There is also the status of the brand, very close to the variables studied in business-to-consumer relationships (Lacoeuilhe, 2000) and whose importance in the decision process is high. Brand importance in the demand for goods seems a real issue, in contrast to research in the services area. One factor suggests that we should pursue research towards a better knowledge of the VSE owner/manager as an individual (following the work by File and Prince, 1996 on family businesses). An individual psychological dimension in the relationship appears at a second level of analysis of the qualitative data, and is of interest because it responds to a request and certain deficiencies identified during our literature review: the consumption behavior of VSE owners/managers can be explained in terms of elements relating to their personalities. Respondents displayed individual differences:

- In the place they give to the relationship in their choice of suppliers;
- In the attitude they have towards price negotiation;
- In the relationship they have with the brand (product, security, prestige, etc.);
- And also in the way they are projecting themselves within their companies. Some refer to their business in an impersonal way (“it [the firm] is not followed by manufacturers"), others in the first person ("it [my provider] looks to me”).

5.2. Limitations and avenue for future research

The path for future research involves an extended understanding of the individual behavior of the VSE owner/manager, aimed at testing the conceptual model proposed. To pursue this new research objective, authors interested in understanding VSEs’ consumption behavior could find interesting subjects in current research on both entrepreneurship and business venturing. Researchers in these fields have suggested some promising concepts for studying the interaction between the firm and the individual who directs it. For example, Bruyat (2001) speaks of the dialogic relationship of the contractor with its project of value creation, and Torres (2003) mobilizes the concept of proximity derived from the Moles and Rohmer law of proxemics (1978). Research on venture capital is also looking more closely at the relationship between the company and its owners: including the owners’ characteristics – assessing both their personal and professional achievements – before deciding to invest in a project (Sahlman, 1990).

If we are to be objective on the scope of this qualitative phase it is important to clarify its limitations. The first limitation of this study was the selection of respondents in Paris and its suburbs. The interviewees are not representative of all the VSEs in France (suppliers are more numerous and more easy to access near Paris than in other French regions). The external validity of the study is also compromised by its qualitative nature, and the small sample size of this investigation. However, we used three different sectors to compensate for the bias inherent in the study of a single business and only one type of customer/supplier relationship.

Nevertheless, the cross-sectional analysis of the transcribed conversations allows us, from a more managerial viewpoint, to identify 30 marketing and sales levers that could be used by business-to-business companies to provide the relationship benefits that business customers look for.

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Notes

Note 1. 91.8% of European enterprises have no more than nine employees, according to Eurostat (Schiemman, 2008).

Note 2. Requests to *Business Source Complete* and *Electronic Journal* Service allowing us to explore the databases of both journals concerning marketing and entrepreneurship

Table 1. References studying combinations of business-to-business, small businesses, and relationship marketing (via EBSCO, May 2008)

Keywords (Boolean research AND)	Number of references
"relationship marketing" and "business-to-business"	404
"relationship marketing" and "small business"	22
"relationship marketing" and "business-to-business" and "small business"	22

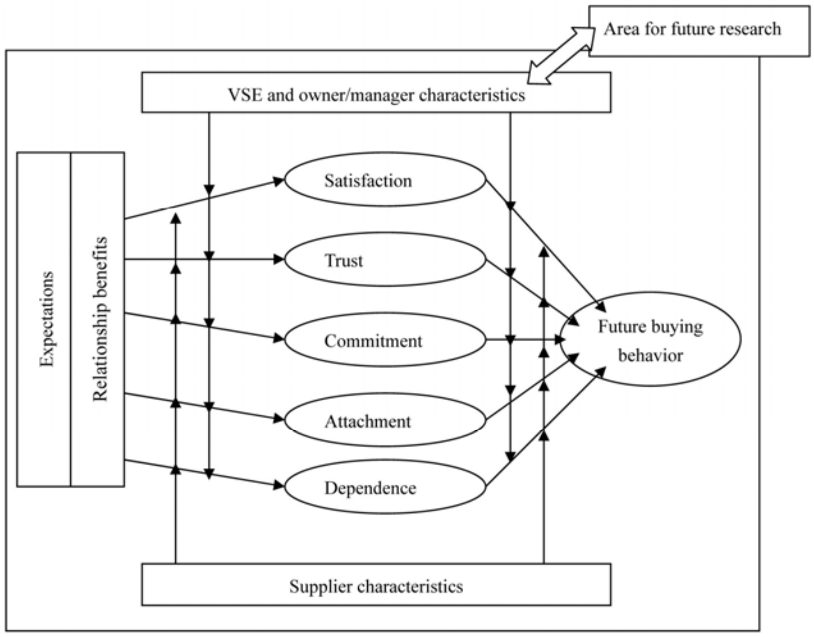

Figure 1. A theoretical model of VSE relationship expectations

Appendix 1a. Automotive themes

Theme	Sub-theme
Relationship elements	- Relationship described as a general atmosphere and specific elements o Meetings o Price o Interpersonal o Honesty o Professionalism o Tensions o Looking for geographic proximity o Service Quality o Recognition and respect o Loyalty (enthusiastic for Citroën affiliates) - Relationships tend to deteriorate
Negotiation / collaboration	- Quotas on aftermarket parts - "Chasing time" (i.e., losing a lot of time negotiating with their suppliers) - Business size as a negotiation criteria
Products	- Choice criteria - Multi-platform products
Brands	- Professionalism - Technique - Customer orientation
Business	- Selling cars - Buying parts - Business politics of manufacturer - Little gifts
Management	- Communication - Supply chain - Monitoring - Unreachable sellers - Recognition
Benefits, expectations, fear / development of business	- Business fear - Affiliation is a costly obligation - Widespread use of electronic diagnostic boxes - European legislation

Appendix 1b. Construction themes

Theme	Sub-theme
Suppliers	- Buying strategies and supplier portfolio - Differences among suppliers - Ways of selling products - Negotiation mode is questioned - Personal selling remains efficient - Dealer strategy in pull marketing (when the dealer attracts the consumer) - Supplier choice criteria
Relationships	- Interpersonal
Loyalty and negotiation	- Dealers - Commercial - Negotiation strategies
Relational	- Dealer differentiation - Consequences of interpersonal relationships - Construction is a relational sector - Relationships are business, business is relationships - Relationships, an obligation
Criticisms of suppliers	- Logistics - Technical information - Lack of professionalism
Product	- Choice criteria - Defined by tenders vs. free choice - Brand as a choice - Innovation - Brand, quality, price - Technical products vs. basic products - Need for quality
Brands	- Sign of quality - Quality/price - Brands are communicating with VSE's customers.
Information sources	- Issuer - Medium - Message - Need for technical information - Lack of information about new products
Business	- Payment terms - Rate negotiations - Loyalty programs - Promotions, benefits of loyalty programs
Consequences	- Satisfaction - Service quality - Supplier proximity (supplier adjustment) - Price
Management	- Monitoring - Logistic

Appendix 1c. Hairdressing sector themes

Theme	Sub-theme
Products in presence	- Hair Brands importance - Product brands less importance
Choice criteria	- Product - Price - Services - Innovation
Interpersonal relationships	- Influence on choice criteria o Positive o Negative - Moderated by independence *vs*. franchisee
Ideal relationships	- Drawbacks of actual relationships o Ideal relationships o Delivery o Assistance o Training o Advertising o Research for new product
Brands	- Brand image - Brand as quality - Brand as lever of renown and positioning for the hairdressing saloon - Brand as training - Brand as innovation
The patent	- Benefits - Constraints
Relation with end consumer	- Customer Orientation - Demand for products/brands

Appendix 2a. VSE's relationship model in the automotive sector

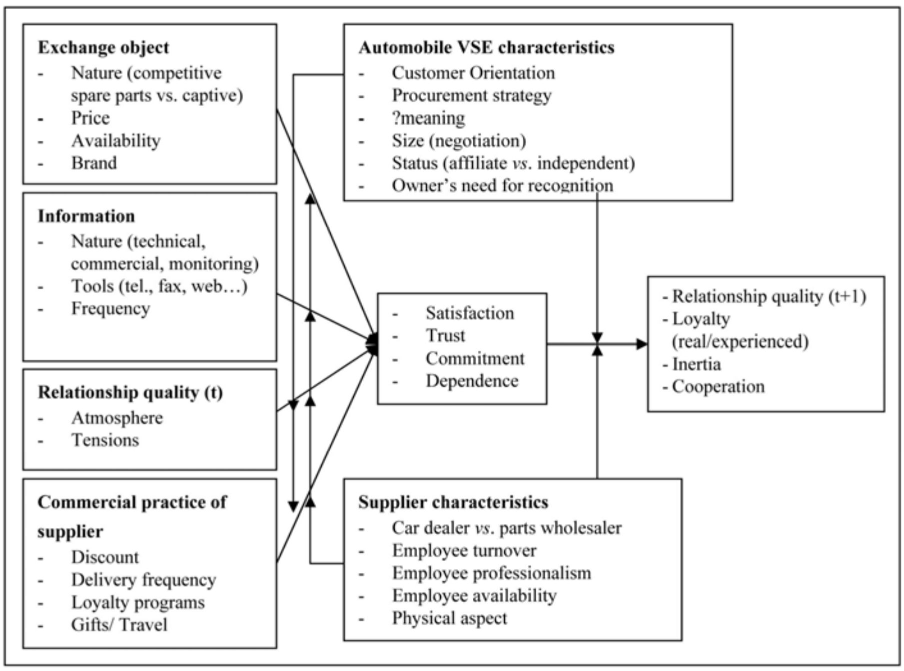

Figure 2a. Variables at stake in the relationship marketing model of an automotive VSE

Appendix 2b. VSE's relationship model in the building-trade sector.

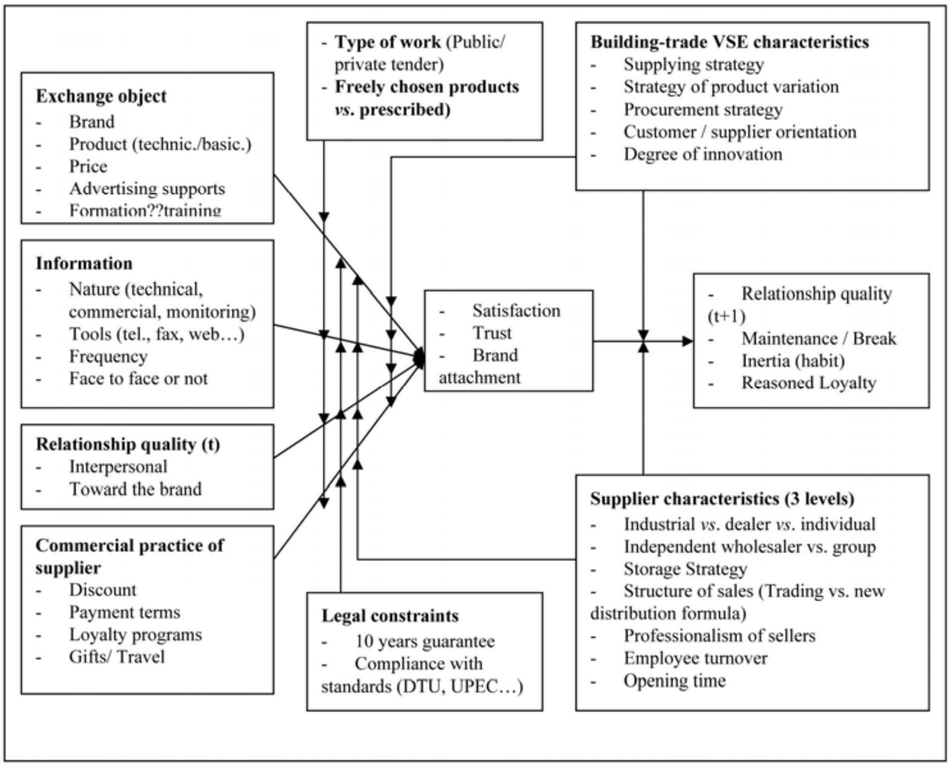

Figure 2b. Variables at stake in the relationship marketing model of a construction VSE

Appendix 2c. VSE's relationship model in the hairdressing sector.

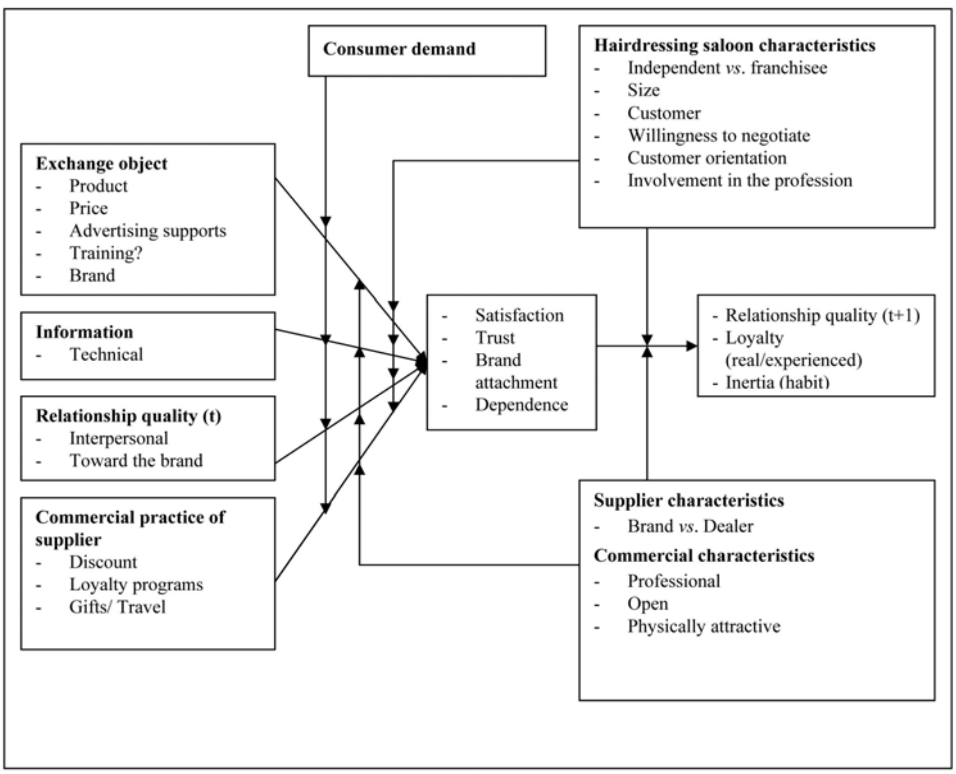

Figure 2c. Variables at stake in the relationship marketing model of a hairdressing VSE