

A Dynamic View of Marketing Capabilities for SMEs' Export Performance

Andrea Moretta Tartaglione¹ & Vincenzo Formisano¹

¹ Department of Economics and Law, University of Cassino and Southern Lazio, Cassino, Italy

Correspondence: Andrea Moretta Tartaglione, Department of Economics and Law, University of Cassino and Southern Lazio, Viale dell'Università, 03043 Cassino (FR), Italy.

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Abstract

The aim of this paper is to analyse marketing capabilities, through the dynamic capabilities framework, in order to increase understanding of how gradual global SMEs operating in traditional sectors can improve their export performance.

The work is based on the exploratory, descriptive, qualitative method of a case study. An Italian SME has been selected on the basis of its export performance and marketing activities. The study has been conducted through secondary data analysis and a semi-structured in-depth interview with the CEO, with the aim of highlighting the relevance of emerging dynamic marketing capabilities connected with international performance.

The results show that a SME, which lacks resources for international expansion, can improve its export performance by adapting, integrating, building, and reconfiguring its existing internal and external marketing capabilities for international markets.

The principal limitation of this work is that, by analysing a company belonging to the alcoholic beverage sector, where price decisions are often left to importers, it was not possible to analyse dynamic pricing capabilities. This paper offers a contribution to the discussion of the internationalization of gradual global SMEs from the perspective of marketing and dynamic capabilities, missing from the literature, which is mainly focused on the study of multinational and born global enterprises.

Keywords: competitive advantage, dynamic capabilities, export performance, marketing capabilities, SMEs

1. Introduction

Globalization and increased competition in domestic markets have made internationalization an inevitable process. However, most businesses in Europe are Small and Medium Enterprises (SMEs), that often lack the resources and skills needed to achieve a competitive advantage in foreign markets. SMEs operating in traditional, low-tech sectors are compelled to approach internationalization gradually, trying to replicate abroad the resources acquired in their own country, starting from the geographically and culturally closest countries, rather than from those which offer the greatest opportunities. Among the various modes of entry into foreign markets, these companies are often forced to choose to export, because it requires less involvement, less risk and fewer resources.

To achieve positive performance through exports, SMEs need to have specific marketing capabilities, generally defined as the result of an integrative process designed to apply the collective knowledge, skills, and resources of the firm to solve marketing problems (Weerawardena, 2003). "Marketing capabilities can help firms achieve higher international performance facilitating knowledge of customers, product development and adaptation, as well as meticulous manipulation of key marketing tactical elements to target foreign customers with quality, differentiated goods" (Blesa & Ripollés, 2008, p. 652). Nevertheless, when a company operates in different complex and mutable markets, possessing and exploiting marketing capabilities abroad is not enough to ensure a competitive advantage, which is an antecedent of export performance; it requires, instead, the development of dynamic marketing capabilities, intended as the abilities to build, integrate, and reconfigure internal and external marketing competencies (Teece, Pisano, & Shuen, 1997).

Several authors state that dynamic capabilities are necessary to create competitive advantages, adapt to changing environments in multiple markets and in different consumer cultures, overcoming some of the obstacles in the

internationalization process (Pitelis & Teece, 2010).

However, the literature on dynamic capabilities and internationalization focuses primarily on multinational enterprises, international new ventures and born global companies, while little attention is paid to “gradual global” SMEs operating in traditional industries.

The aim of this paper is to study marketing capabilities through the lens of the dynamic capabilities framework, in order to analyse the export performance of traditional SMEs in international markets (Note 1). After analysing the literature on marketing capabilities and linking them with the framework of dynamic capabilities, the work deepens the theoretical concepts through the case study of an Italian small enterprise. Through a semi-structured interview and the analysis of secondary data, the development and exploitation of dynamic marketing capabilities in its internationalization process, and the effects on its performance abroad are explored.

2. Literature

2.1 *Marketing Capabilities for Export Performance*

According to different researchers, marketing capabilities are the result of an integrative process designed to apply the firm’s collective knowledge, skills, and resources to solve marketing problems (Knight, 2000; Weerawardena, 2003). Several authors consider marketing capabilities as a determining factor of competitive advantage (Day & Wensley, 1988) and superior performance (Krasnikov & Jayachandran, 2008), since they are deeply embedded in the organization and present high levels of value, scarcity, inimitability, and non-substitutability (Day, 1994; Theodosiou, Kehagias, & Katsikea, 2012; Vorhies, Orr, & Bush, 2011).

When the internationalization process is incremental, as for gradual global enterprises, marketing capabilities support firms in adopting greater international commitments by providing them with superior skills in market sensing, customer linking, and channel bonding (Day, 1994); the increase in international commitment influences the improvement in international performance (Johanson & Valhne, 1977). However, understanding of the associations between marketing capabilities and international performance remains limited (Yeniurt, Cavusgil, & Hult, 2005) and further studies of this relationship are required (Hooley, Greenley, & Fahy, 2002). An interesting contribution derives from the work of Tan & Sousa (2015), in which the authors state that the positive link between marketing capabilities and business performance in the home country, shown by the literature (Blesa & Ripollés, 2008; Vorhies & Morgan, 2005), can be easily detected in foreign countries where firms can successfully transfer and exploit their marketing capabilities, since these are not embedded in the domestic market. However, this conclusion should not be appropriate when the firm operates in markets which have different competitive structures and demand side characteristics from those of the domestic market, thus requiring different marketing strategies and capabilities.

Since our research interest is in SMEs’ internationalization process, which usually consists of exporting (Jones, 2001), in this paper we focus on export marketing capabilities, in which firms use routines to “gather, process and interpret export market information, as well as distributing relevant information to export decision makers” (Morgan, Katsikeas, & Vorhies, 2012, p. 274).

Tan & Sousa (2015) recognize four types of marketing capabilities for export activities, one for each marketing mix lever, defined as the skills, and accumulated knowledge which exporters use to (1) develop and launch new products, (2) manage pricing tactics, (3) provide support to distributors and develop a close relationship with them, and (4) effectively deliver marketing messages. The authors claim that these capabilities create a competitive advantage for the exporting firm through a low-cost advantage and a differentiation advantage, which directly result in export performance, such as market share and profitability (Murray, Gao, Kotabe, & Zhou, 2011; Spyropoulou, Skarmeas, & Katsikeas, 2011). Therefore, the extent to which marketing capabilities can ultimately improve export performance may depend on how they lead to a competitive advantage. In short, marketing capabilities positively influence export performance through the development of competitive advantage. However, previous studies did not investigate how marketing capabilities allow firms to gain a competitive advantage.

2.2 *Dynamic Marketing Capabilities and International Competitive Advantage*

Internationalization offers businesses a range of opportunities in terms of acquiring knowledge of new markets and cultures, and access to new resources and networks of relationships (Luo, 2002). However, when a company operates in different cultural environments, the capabilities possessed in the domestic market are not sufficient to sense opportunities and threats or to seize opportunities abroad, but these tasks require additional or higher order capabilities and the constant adjusting and reconfiguring of such capabilities to international contingencies (Li, 1995).

In recent decades, the study of competitive advantage has mainly been related to the theory of dynamic capabilities, defined as the ability to build, integrate, and reconfigure internal and external competencies to address rapidly changing environments (Teece et al., 1997). Therefore, in order to attain a competitive advantage in foreign markets, the marketing capabilities described above should become dynamic (Zollo & Winter, 2002).

Fang & Zou (2009, p. 744) define dynamic marketing capabilities as “the responsiveness and efficiency of cross-functional business processes for creating and delivering customer value in response to market changes”. What distinguishes dynamic marketing capabilities from dynamic capabilities in general is the focus on customer value (Hult, Ketchen, & Slater, 2005), and what distinguishes dynamic marketing capabilities from ordinary marketing capabilities is their support to firms in the process of changing from a stationary situation (Danneels, 2002).

The integration and reconfiguration of internal and external organizational skills, resources, and functional competences, including product development, pricing, distribution, and communication (Bruni & Verona, 2009; Griffith, Yalcinkaya, & Calantone, 2010), allow firms to respond to changes in market conditions (Kamboj & Rahman, 2015; Murray et al., 2011); hence, through market sensing and customer linking, dynamic marketing capabilities support firms in achieving competitive advantages in international markets (Child, Rodrigues, & Frynas, 2009).

In the specific case of gradual global SMEs, the process of developing dynamic capabilities is distinct from other types of company. According to March’s notion of “exploitation” (1991), these firms develop marketing capabilities in their home country and, once they reach a sufficient threshold, they are ready to replicate them in foreign markets. Dynamic marketing capabilities emerge when they are able to release and integrate the knowledge of marketing strategies and tactics with the marketing routines and practices developed in each country to evolve (Villar, Alegre, & Pla-Barber, 2014). These processes allow the emergence of sustainable competitive advantages, as they are difficult for competitors to replicate (Cavusgil, Gharui, & Agarwal, 2002; Morgan, Vorhies, & Mason, 2009; Morgan, Zou, Vorhies, & Katsikeas, 2003).

In sum, we state that a dynamic view of marketing capabilities offers a suitable theoretical foundation for the understanding of SMEs’ performance in international contexts, as it suggests ways to adapt to the new demands of foreign markets, through learning and the integration and reconfiguration of existing marketing competencies.

The literature on dynamic capabilities and internationalization has increased exponentially in recent years. The majority of works analyse dynamic capabilities for the internationalization of multinational enterprises (Chakrabarty & Wang, 2012; Dunning & Lundan, 2010; Michailova & Zhan, 2015; Pitelis & Teece, 2010; Teece, 2014). The only works that deal with dynamic capabilities for the internationalization of SMEs focus on the accelerated internationalization of born global companies (Chen & Jaw, 2009; Monferrer, Blesa, & Ripollés, 2015; Weerawardena, Sullivan Mort, Liesch, & Knight, 2007) or international new ventures (Evers, 2011; Fang & Zou, 2009; Fernhaber, 2013; Pehrsson et al., 2015). Therefore, it emerges that there is a lack of studies on gradual global SMEs belonging to traditional industries, which represent the majority of companies in Italy (Istat, 2016) and in Europe (European Parliament, 2017). This type of company has more difficulties in the internationalization process, since they lack the correct resources and competences to extend their activities into other countries. For these reasons, this work is based on the analysis of a gradual global small enterprise.

3. Method

The methodology of this paper is based on the exploratory, descriptive, qualitative method of a case study. The choice of a qualitative method is justified by the fact that research on dynamic capabilities and internationalization is fairly recent and there is a lack of quantitative studies. This could be due to the absence of a broad consensus on an operational definition of dynamic capabilities, and this makes it difficult to identify a generally acceptable scale for measuring them. In fact, as highlighted by Xiao et al. (2008), the empirical studies are often based on case studies and the application of quantitative methods is poor, hence quantitative research is less developed than qualitative (Wang & Ahmad, 2007). The few quantitative works produced in this field (Chang, 2012; Drnevich & Kriauciunas, 2011; Protogerou, Caloghirou, & Lioukas, 2012; Wang & Ahmed, 2007; Wu, 2010), although showing interesting attempts to operationalize the dynamic capabilities and offering stimulating reflections in this sense, present several limitations, highlighting how difficult empirical research is on this subject.

Therefore, in our opinion, at this stage, the cognitive aim is comprehension, and not explanation, based on the criterion of substantial representation rather than statistical, through cross-sensing tools less binding than the questionnaire that allows the researcher to collect data first-hand.

Moreover, our interest is observing dynamic marketing capabilities involved in international processes that unfold over time and so cannot be studied by looking at a snapshot from a particular moment in time. By taking a micro approach, we obtained evidence of what dynamic marketing capabilities look like in an organization and how they are developed and deployed during the internationalization process (Ambrosini & Bowman, 2009).

According to the methodology of Yin (2003), the case study has been conducted by seeking to triangulate data through the intersection of different sources of data. Primary data has been collected through a semi-structured interview with the CEO of the selected company, and integrated and compared with secondary data extracted from several documents, such as financial statements and company reports. To ensure internal validity, we used protocols for the development and formalization of the case study; to get external validity we used analytical generalization based on Yin (2003).

4. Case Study: Antica Distilleria Petrone

Antica Distilleria Petrone is a small, Italian family business started in the late 1800s, now come down to the fifth generation. Today, the company is managed by Andrea Petrone and has 14 employees with a turnover of about 5 million euros, of which 41% comes from exports. The company operates in the business area of distilling, rectifying and blending spirits, and manages a product portfolio that is rather varied and interconnected, consisting of liqueurs, distillates, alcoholic aromas for pastry, herbal infusions and natural aromas for industry. In order to reach its current high quality standards and consolidate its image in the market, the Petrone Distillery has built a complete production line, “from land to distillery”, based on the authenticity of the raw materials. Everything starts from a careful analysis of the land, where many of the officinal herbs and aromatic roots that characterize liqueurs and distillates are cultivated.

Despite a high market share in the Italian market, where it enjoys a high reputation and trust from consumers, Petrone Distillery has felt the need to expand abroad since 2005. So, through exports, it has brought its products to over 10 countries, where it has operated continuously for more than 10 years. Hence, the company can be defined as a “gradual global company”, which started internationalization centuries after its foundation. The company began to exploit its resources and capabilities first in culturally and geographically closer countries, and then in more distant markets, when it began to acquire greater export capabilities and accumulated knowledge. Its presence in foreign markets has been achieved through continuous travels to participate in fairs and tasting, both in foreign and Italian markets, with the aim of finding importers and distributors willing to market the company’s products. With the support and proximity of domestic and foreign exporters, Andrea Petrone identified the countries with the highest potential for drinking alcoholic beverages, particularly limoncello and sweet liqueurs, which represent the diamond tip of the company's product portfolio. There is a small number of countries with similar eating habits, with Italy and USA in the lead for these products. This data led the distillery to enter the American market first, where it immediately recorded 15% of sales in 2005, and then to reach major European countries, including France and Spain, until arriving in Switzerland. Their products are present today in emergent countries, such as China, Japan and India, but sales are very low. According to Andrea Petrone, the Chinese market will be very important in the future, because the Chinese consumer emulates the American consumer, to which Petrone already has a high appeal.

After analysing a series of secondary data on export performance over the years, through a semi-structured interview with the CEO Andrea Petrone, we identified the dynamic marketing capabilities that the company has developed during the internationalization process and that can be traced back to the major export performances.

4.1 Product Innovation and New Product Development

The product policy of the Petrone Distillery is based on the high quality of raw materials, principally from the Campania Region, and products that require direct control over the entire production process. In fact, while other cream liqueur producers buy the base of milk and alcohol from suppliers, Petrone is the only Italian company to have acquired the technologies needed to mix milk and alcohol. As a consequence, internationalization strategies cannot include foreign production or adaptation of the product to foreign markets. The Italian liqueur best known and best-selling abroad is limoncello. However, when Petrone started exporting in 2005, markets were already served by other competitors. From here the decision was made to try to conquer the foreign markets with products that were new and innovative, but also representative of “Made in Italy”.

The most interesting market for Petrone is Spain, because of the high consumption of cream liqueurs, low customs duties, and gastronomic and cultural proximity to Italy. So, when he thought about creating a new product, he realized it directly by thinking of Spain and Italy as destination markets.

GUAPPA was born from the “Campania Felix” ground’s resources, a creamy liqueur with a strong personality,

made out of buffalo milk extracted from the source zone of the “mozzarella di bufala campana DOP”. This product certainly reflects the Italian gastronomic tradition, as it is linked to buffalo mozzarella, but many elements make it clear that it was also designed for Spain. First of all, the name “Guappa” resembles the Spanish word “guapa” i.e. beautiful. Secondly, the flavour is reminiscent of cappuccino which, according to a marketing survey, is the favourite taste of Spanish people. Thirdly, the bottle has colours and graphics reflecting a typical Spanish design and the label with the buffalo head recalls the image of the bull, a traditional Spanish symbol (fig. 1).



Figure 1. Guappa's bottle

Another leading product of the Petrone Distillery is Elixir Falernum, which is a liqueur made with an important wine from the south of Italy, enriched with forest berries. This product is very important for entering new markets, because it uses the fame of and the passion for Italian wines. In collaboration with the University of Palermo, the company has pursued an innovative project for this product, consisting of aging the wine in barrels with music in the background. After several months, during which the wine fermented in barrels to the music of Ennio Morricone, analysis showed that the product matured three months before it was expected to, so the production process has shortened, and the liqueur has a richer, rounder and denser taste.

4.2 Reconfiguration of Distribution Strategies

The distillery's distribution channel comprises importers who sell to local distributors, who later distribute the product at the point of sale. The problem with the alcohol sector is that licenses are necessary to import the products, so direct sales are not possible. Especially for export to countries where a monopoly is present, such as Canada and the countries of northern Europe, the main role is played by the importer, who has the task of forming the relationship with the monopoly and communicating the product correctly to this last for the purpose of inserting it into its product portfolio. Petrone decided to change the distribution strategy to gain more control over a very important market that is Russia, by signing a piggyback contract with the fourth biggest vodka producer in the country, which has put Petrone products into its range of offerings. In this way, the company gained a faster spread of products by leveraging the partner market.

Another important distribution strategy that the company has implemented for expanding abroad is to enter a new distribution channel, namely duty-free sales in airports. This strategy is not intended to increase sales or margins, but rather to make the product visible to international consumers.

Finally, Petrone Distillery was the first alcoholic company to use tiered counter top display units in tobacco and other retailers for miniature products (fig. 2). The goal is to stimulate impulse purchases so that foreign consumers, who do not know the product, are encouraged to try it.



Figure 2. Petrone's tiered counter top display unit

4.3 Communication Strategies and Co-branding

In Italy, Petrone products are well known by consumers and have a long tradition for which the company does not need consistent advertising campaigns. The issue is different abroad, where the company, given its recent internationalization activity, is almost unknown. For these reasons, the company has undertaken some promotional activities aimed at increasing export performance. These communication strategies have been designed, taking into account the scarcity of economic resources available to the company. The most important one, which has produced the greatest results, was the co-branding agreement with Alviero Martini, an Italian luxury brand that sells clothes and handbags all over the world with the well-known mark "Prima Classe". Alviero Martini dressed Petrone bottles with his famous design (fig. 3). This enabled products to be placed abroad in a high market segment. Consumers, who did not know the Petrone brand, recognized the design of Alviero Martini on the bottles and automatically associated the liqueurs with high quality Made in Italy products.



Figure 3. Petrone's bottles designed by Alviero Martini

Another successful promotional strategy has been that of product placement. In order to reach an international audience, the Petrone Distillery's limoncello has been sponsored in the movie "Third Person", for which the actor Paul Haggis won an Oscar. Other important actors in the movie are Kim Basinger, Liam Neeson, Olivia Wilde and the Italian actor Riccardo Scamarcio. In one scene Scamarcio, who is playing a bartender in an episode set in Rome, offers a glass of the Petrone Distillery's limoncello first to the character played by the actress Moran Atias and then to that of Adrien Brody, who remains very enthusiastic (fig. 4).



Figure 4. Petrone's Limoncello in the movie "Third Person"

The Petrone Distillery is the first Italian distillery to use Microsoft Tag technology in order to improve the dynamics of corporate communications. This innovative technology offers an extraordinary opportunity to stay in touch with customers and allows people to experience a product or service in a new way.

Tag allows consumers to learn specific information about the product or the company, projecting it to the boundaries of technological innovation in an international context. In addition, in order to reinforce the image of Made in Italy, through the Tag, Petrone offers the opportunity to see videos about the history of the most important Italian monuments (fig. 5). Information and videos are available in the most common languages and the company has the opportunity to see when and where people use the Tag.



Figure 5. Petrone's use of Microsoft Tag technology

5. Conclusions

This paper shows how marketing capabilities can improve the export performance of small businesses operating in traditional sectors, which adopt a process of gradual internationalization. In fact, despite the fact that this type of businesses represents most European companies, the literature has a gap on this topic. By adopting the framework of dynamic capabilities, the study shows how it is not sufficient to possess marketing capabilities and replicate them in other countries to gain a competitive advantage in foreign markets, but it is necessary to translate them into dynamic capabilities, i.e., to have the capacity to constantly reconfigure and adjust them to international contingencies.

The case study analysed offers interesting suggestions in this sense. From the analysis of secondary data about the export performance of an Italian small company and an in-depth interview with its CEO, it emerges that the company improved its export performance through a series of activities and strategies that can be identified as dynamic marketing capabilities. The company, which lacked resources and competence for international expansion, was forced to adapt, integrate, build, and reconfigure its existing internal and external marketing competencies to obtain positive results. It developed new products, applied innovation to the existing products, looked for new distribution channels and new distribution formats, created partnerships, adapted its communication strategy, etc.

The principal limitation of this work is that, by analysing a company belonging to the alcoholic beverage sector, it was not possible to analyse the dynamic pricing capabilities. In fact, in this sector, prices are deeply influenced by the excise duties of each country and price decisions are often left to importers.

In order to provide more generalizable empirical evidence, future studies will be aimed at expanding the sample investigated.

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Notes

Note 1. In this paper, by “export performance”, we mean sales, profits, or marketing measures and subjective measures such as distributor or customer satisfaction.

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