

## AN EMPIRICAL INVESTIGATION ON THE SIGNIFICANT USAGE OF DIGITAL MARKETING CHANNELS IN SMES WITH SPECIFIC REFERENCE TO UTTARA KANNADA DISTRICT OF KARNATAKA STATE

**Author's Name:** <sup>1</sup>Jayadatta S, <sup>2</sup>Shrikanth Ganapati Naik

**Affiliation:** <sup>1</sup> Assistant Professor KLES IMSR, BVB Campus, Vidyanagar, Hubli

<sup>2</sup>Assistant Professor & HOD, Department of Commerce, Government First Grade College, Kumta, Karnataka

**E-Mail:** [jayadattaster@gmail.com](mailto:jayadattaster@gmail.com)

**DOI No. – 08.2020-25662434**

### Abstract

The main purpose and intent of the study is to provide insights into the utilization and goals of digital marketing, and examines factors that influence the adoption and use of digital marketing channels in SMEs. The design and approach with respect to methodology includes the data comprises semi-structured theme interviews in SMEs among 16 managers and 421 survey respondents in Uttara Kannada district of Karnataka State. The findings and also the results of this study reveal that SMEs seem not use the full potential of the new digital tools, and so are not deriving benefit from the opportunities they provide. Furthermore, the results also raise the question of whether SMEs have understood the fundamental change in the nature of communication brought about by digitization. Major research study limitations includes data comes from one region and thus the research context limits the generalizability of the results. Practical implications of the study reveal that SMEs seem not to be keeping pace with digital developments, mostly due to the lack of knowledge of digital marketing. Most of the studied SMEs do not apply the full potential of the new digital tools and hence are not benefitting fully from them. Significant social implications focuses on the discussions on the future regional development of SMEs have called for training programmes to help SMEs exploit digitization. This is something that the government should take note of. The major Originality and value Whereas focuses on the adoption process of new technologies such as IT in general and the internet in particular have been examined in the SME literature, this is among the first studies examining adoption and usage of digital tools from the marketing perspective.

**Keywords:** Digital marketing, channels, tools, marketing communications, technology adoption, social media, small- and medium-sized enterprises, resources

### INTRODUCTION

Digitization has become part of our daily routines. It is shaping the traditional ways in which consumers and businesses interact with each other. Digitization, and especially social media, have been claimed to transform consumer behaviour (Kaplan and Haenlein, 2010), with important consequences for firms, products and brands (Muntinga *et al.*, 2011). Consumers are increasingly spending their time online and using social media (Forrester Research, 2008; Nielsen, 2012). They use online services for browsing, storing and playing music, to email, to access Facebook, Twitter, and apps with various connected devices such as smart phones, tablets and laptops and that is transforming the way the internet is being used (Ericsson Consumer Lab, 2012). The adage, 'If a company cannot be found in Google, it does not exist' seems to typify consumer behaviour today. It should be clear that the utilization of digital channels is important for brands, and it should be a progression that SMEs should follow too if they want to stay competitive and grow. However, it seems that many SMEs do not use the full potential of

these new digital tools (see e.g. Gilmore *et al.*, 2007). SMEs are a significant part of the world economy. For example, in Europe 99 % of companies are SMEs (of which 92 % are micro-enterprises) and those companies provide more than 75 % of private sector jobs (European Commission, 2011). The importance of these companies cannot be ignored.

Literature shows that digitization in its various forms is positively related to small business growth, performance and competitiveness. Digital marketing and social media provide opportunities for small businesses to attract new customers and reach existing customers more efficiently. Even the starting point of digitization, broadband access, has been shown to bring significant opportunities to SMEs such as reaching new target audiences, increasing performance and efficiency, and improving growth and competitiveness (Galloway, 2007; Shideler and Badasyan, 2012; Spurge and Roberts, 2005). In addition, internet use can benefit SMEs by reducing costs (Chong and Pervan, 2007; Kaynak *et al.*, 2005; Lohrke *et al.*, 2006) and facilitating both internal and external communication (Bharadwaj and Soni, 2007; Chong and Pervan, 2007; Eriksson, Hultman and Naldi, 2008; Kaynak *et al.*, 2005). More recent developments in digitization, namely the social aspects of the web (e.g. Web2.0/social media) have confirmed the positive relationship between utilization and outcomes. In a recent study of 12 SMEs in the UK, social aspects of the web were found to improve efficiency and enhance external communication (Barnes *et al.*, 2012).

The marketing reality of SMEs is far from that of large corporations and hence digitization is a greater challenge for them. Literature argues that traditional marketing theories are not even applicable to SMEs (Reijonen, 2010). SME marketing techniques are informal, reactive and spontaneous (Gilmore *et al.*, 2004), and there is a considerable gap between marketing activity in a typical SME and the best practice advanced by marketing theory (Parrott *et al.*, 2010). SMEs are characterized as strongly sales focused (Hill, 2001; Reijonen, 2010) and the main goal of their marketing is just to create awareness of the firm and products (Reijonen, 2010). In general, marketing in SMEs has been characterized as disorganized and unplanned, although some SMEs do engage in formal and conventional marketing practices like marketing planning (Hill, 2001). Those SMEs that do make and follow a marketing plan should benefit as the activity has been found to be one of the key factors of successful marketing in SMEs (Parry *et al.*, 2012). Hill (2001) predicted that formal marketing planning in SMEs would increase as a younger generation with a more specialized management education became managers. The research related to the adoption process of new technologies in SMEs has been widely covered (Carroll and Wagar, 2010; Chatzoglou *et al.*, 2010; Dholakia and Kshetri, 2004; Lohrke *et al.*, 2006; MacGregor and Vrazalic, 2005; Parker and Castleman, 2007; Proudlock, 1999) but knowledge of how SMEs utilize digital channels in their marketing requires more in-depth knowledge.

This study contributes to the understanding of SMEs marketing practices by investigating digital marketing in the marketing mix of micro and small companies in a regional economy (Uttara Kannada District). The study provides insights into the utilization of digital marketing tools, and examines factors that facilitate or inhibit the adoption and use of digital marketing channels in SME's in Uttara Kannada District. In general, India is ranked fourteenth in the world in terms of internet penetration rate (ITU, 2013) with an internet penetration rate of around 90%. This means that people in Finland are actively using digital channels like the internet on a daily basis. On a more general level, the study contributes to the discussion on SME marketing practices (e.g. Gilmore *et al.*, 2007; O'Donnell, 2011; Reijonen, 2010; Simpson and Taylor, 2002).

The study proceeds as follows. In the next section we discuss the term digital marketing and its

sub-components, and review literature on the enablers of and barriers to the usage of digital tools in SMEs. In the subsequent section we present our methodology. This will be followed by a presentation of the study results. Finally, a discussion of the findings will be presented alongside the study's contributions, limitations and suggested avenues of future research.

## DIGITAL MARKETING AND SOCIAL MEDIA UTILIZATION IN SMES

### Digital Marketing

Digital marketing is a new approach to marketing, not just traditional marketing boosted by digital elements (Järvinen *et al.*, 2012; Liu, Karahanna and Watson, 2011; Rowley, 2008). It has its own characteristics and dynamics, which should be understood in order to be able to select effective marketing tactics and strategies. Digital channels can be classified in various ways. One way to classify the channels is to present them based on the viewpoint of which party controls the communications (the company or the target audience) and whether communications is one-way or two-way (see Table 1)

	High company control	Low company control
One-way	Website Email newsletters Online directories Banner adverting	SEO (Search engine optimization) SEA (Search engine advertising)
Two-way	Company generated blogs Company's own communities	Social Media

Table 1 Classification of digital marketing channels

### One-way communication channels

Websites and email can be seen as examples of one-way online tools with high company control. A company's website can be described as the home of the brand in the online environment (Christodoulides, 2009). Email can be used for various marketing purposes including sharing information, promotion, building and maintaining relationships, and guiding customers to websites (Simmons, 2007). Although email is a two-way communication channel in its nature, it is often used as a one-way channel to deliver newsletters or advertisements. These two basic forms of digital marketing are often used in SMEs. Already in 2008, Eriksson *et al.* (2008) found that 90% of the Swedish SMEs they surveyed (N=160) used a website and email to market their products and services. However, they noted that many of the SMEs were at an early stage of digital channel utilization and that their usage of the more advanced digital channels remained low. Online directories where a company buys its listing for a certain period, and online advertising, can also be considered digital mediums of the one-way type marked by high company control.

Search engine optimization (SEO), the process of improving the website's search engine rank in organic search results, and search engine advertising (SEA), paid advertisements on a search engine's results page related to some keywords, are both one-way communication channels. Their purpose is to inform people of the products or services available, and they are crucial to a company's visibility on the web. Both SEO and SEA are commonly used among larger firms, but at least few years ago, their potential was not fully understood among SMEs (Karjaluo and Leinonen, 2009).

### ***Two-way communication channels***

The rise of social media has turned the marketer-customer relationship upside down; in so far as the power has shifted from marketers to customers (Hennig-Thurauet *al.*, 2010). The essential nature of social media requires company marketing to take the form of two-way communication with customers instead of monologues from the company. Naturally, in social media channels the company has less control over its brand. In social media, audiences do not expect sales pitches and marketing messages but real information generated by conversations around the brand (Christodoulides, 2009; Weinberg and Pehlivan, 2011), and they expect authentic stories to be told (Fournier and Avery, 2011). It has been stated that post-internet branding is about '*soft selling*', co-creating value and managing customer relationships not attempting to directly drive sales (Hennig-Thurauet *al.*, 2010; Rowley, 2008).

Social media has become an important part of an organization's marketing communications and branding (Bruhn *et al.*, 2012). For example Facebook has become an important channel in engaging consumers and creating brand awareness (Malhotra *et al.*, 2013). Blogging is said to be a good relationship tool for both marketing and PR (Ahuja and Medury, 2010; Cho and Huh, 2010; Singh *et al.*, 2008) and many large companies have adopted blogging as part of their routines. Blogging is great way to create content on the web although it requires that one has something important to say and the ability to express it. It is also a form of social media where the company retains a relatively high level of control since the blog usually resides on the company's own website allowing, the content to be edited and the comments monitored and filtered.

According to a recent study on 462 SMEs in the USA, many SMEs struggle with the added workload of social media (Moyle, 2012). The study also indicates that SMEs are spending up to six hours each week on social media. Of the tools available, Facebook (90% use) and Twitter (70% use) are the most popular, whereas the adoption of blogging and use of LinkedIn (used by around half of the surveyed SMEs), Google+, and Pinterest remain slow. According to the study, one-third of the surveyed SMEs would like to spend less time on social media. Interactivity within the internet seems to have a positive impact on a company's online performance by increasing customer's attention, developing stronger relationships and thereby increasing overall satisfaction (Simmons, 2007). Social media seems to be a successful tool for brand building as well as engaging customers and building unique customer relationships. In addition to the softer outcomes, a recent study indicates that in some cases, utilization of social media can also drive straight sales-related outcomes; customers who are committed through social media to the company are more profitable than those who are not committed to the brand on social media (Rishika *et al.*, 2013).

Nevertheless, opposing views have also been presented. Brands have been claimed to be uninvited intruders in social media, mostly because companies do not conform the norms of social media (Fournier and Avery, 2011). According to a study of more than 7,000 consumers in the USA, UK, and Australia (Spenner and Freeman, 2012), marketers have placed too much emphasis on online social networking with their customers. The aforementioned findings show that consumers have little or no interest in having a social relationship with the marketer that extends beyond the transactional.

### **Enablers of And Barriers To Digital Marketing Usage In Smes**

Not surprisingly, studies suggest that SMEs are in general at an early stage of adopting digital channels (Eriksson *et al.*, 2008) and that firm size has a strong influence on the adoption, in that micro firms are the slowest adopters (Bordonaba-Juste *et al.*, 2012; Teo, 2007). Large businesses are more likely to have the required resources and knowledge to successfully adopt new digital channels and tools (Barnes *et al.*, 2012). Past research has investigated the adoption of digital marketing in SMEs from both the internal (firm-specific factors, strategy, attitudes and experience) and external (infrastructure and environmental factors) perspectives (Dholakia and Kshetri, 2004). In the small business context, the widely applied resource-based theory of the firm (Barney, 1991; Grant, 1991; Lockett and Thompson, 2001) suggests that resources are the dominating factor explaining decision making in small businesses, and that external factors play a relatively small role (Lockett and Thompson, 2001; Hawawini *et al.*, 2003). Karjaluoto and Huhtamaki (2010) have classified the reasons to adopt digital channels in micro firms under three main categories; 1) firm-specific and owner-manager factors, 2) resource-related factors, and 3) environmental factors. They note that these can act either as facilitators or inhibitors of adoption. This classification is followed in this study to understand the adoption of digital marketing in SMEs.

#### ***Firm-specific and owner-manager factors***

Firm-specific and owner-manager factors such as capabilities, motivation, background and experience are focal factors determining the strategic business choices of SMEs (Barbero *et al.*, 2011; Delmar and Wiklund, 2008; Wiklund and Shepherd, 2003) such as the usage of digital channels (Dholakia and Kshetri, 2004; Karjaluoto and Huhtamaki, 2010). These factors are related to expertise and the skill to use new technologies; knowledge of how to benefit from them in business; and also the attitude of the manager(s) and employees to the channels and motivation to use the channels (see e.g., Karjaluoto and Huhtamaki, 2010).

In particular, the technological knowledge of the company owner has been proved to be an important factor (Chao and Chandra, 2012). Based on the last study, owners with a solid knowledge of IT were better able to adopt useful IT solutions and deploy them in ways that ensured that investments supported the achievement of strategic goals. Other factors that support the adoption of digital channels in SMEs related to the perceived benefits of the new channels. Such benefits might relate to the usefulness of a technology (cf. Davis 1989; Karahanna and Straub, 1999), individual notions of the strategic importance of digital channels (Bharadwaj and Soni, 2007) and other tangible benefits that the company has identified in its business (Chong and Pervan, 2007; Kaynak *et al.*, 2005; Levy *et al.*, 2005). Furthermore, other important factors affecting adoption previously suggested are the ease of use of the new channels (Kaynak *et al.*, 2005; cf. Davis, 1989; Gefen and Straub, 2000) and having an opportunity to try the channels in action (Levy *et al.*, 2005).

#### ***Resource-related factors***

Karjaluoto and Huhtamaki (2010) classified resources-related factors into human resources, financial resources and technological resources. They suggested that whereas human and financial resources were strong determinants of adoption, technological resources played a minor role for micro firms. Gilmore *et al.* (2007) stated that SMEs lacked sufficient human resources, capital and knowledge to adopt digital channels fully. The lack of human resources, time and expertise are the largest barriers to digital marketing usage in the industrial context

among both SMEs and larger corporations (Järvinen *et al.*, 2012; see also Michaelidou *et al.*, 2011). In the same vein, the skills of the employees to utilize the channels have been identified as a significant enabler of (or barrier to) adoption of digital channels in SMEs (Chen and McQueen, 2008; Gabrielli and Balboni, 2010; Sayre *et al.*, 2012). A lack of financial resources/capital is typically considered a barrier to the growth of SMEs (Cooper *et al.*, 1994; Federico *et al.*, 2012; Gilbert *et al.*, 2006) and thus also to act as a barrier to the adoption and use of digital channels. Although digital marketing, at its best, has no variable costs, the fixed costs may still be prohibitive for many companies. Some companies might be surprised by the labour intensity of marketing in this new, dynamic environment, which requires a dialogical communication style, continuous attention and participation as well as content be created.

### **Environmental factors**

Environmental factors are outside the company's control and include factors such as product or service type, competitive landscape, the industry sector, consumer/customer behaviour and outside support. Some products and services are simply better communicated through digital channels (Karjaluo and Huhtamaki, 2010). External pressures like competition and the need to expand markets (Chong and Pervan, 2007; Kaynak *et al.*, 2005; Levy *et al.*, 2005, Karjaluo and Huhtamaki, 2010) and the need for outside support or its availability have been identified as significant environmental factors affecting adoption of digital channels in SMEs (Järvinen *et al.*, 2012; Karjaluo and Huhtamaki, 2010). Furthermore, the transition in customer behaviour is also a development that companies should follow.

### **METHODOLOGICAL ISSUES**

This research uses a multiple case study as its research strategy. The main focus is not on generalizations but on obtaining in-depth knowledge of a certain phenomenon (Johnston *et al.*, 1999). The empirical data was collected in two phases; first through semi-structured theme interviews followed by a survey. The objective of the interviews was to gather knowledge of the companies' digital marketing activities, their usage of digital channels and the difficulties experienced in using them. The survey charted digital marketing usage from a wider perspective and contextualized the results from the interviews. The knowledge gathered from the interviews was used along with prior studies (Järvinen *et al.*, 2012; Michaelidou *et al.*, 2011) as a basis of the development of the survey instrument. The items were related to marketing budget allocation, the utilization of, and objectives set for, digital marketing channels in SMEs, and the key drivers of adoption.

We conducted a total of 13 semi-structured theme interviews in SMEs with 16 managers (see Table 2). Those managers had various titles (many SMEs do not have full-time marketing managers) but all were responsible for the marketing activity (including digital marketing) undertaken by their firm. The case companies were selected using a subjective sample, since the purpose was to inspect companies who were interested in digital marketing but had not fully adopted digital tools as part of their marketing initiatives.

The transcript materials were read through several times, and notes were taken to help parse the data. Since the same themes were discussed in each interview, all the material was organized under the themes. After organizing the data, a thick description was written using quoted material from the interviewees to support the findings. Qualitative content analysis was also carried out to clarify the usage of different marketing channels as well as the benefits of and barriers to that usage.

For the second phase of data collection, a survey sample was collected. The sample represented SMEs based in various taluks of Uttar Kannada district of Karnataka State as identified by a specific database. The survey was conducted online in September 2019. A batch of 3650 e-mails including a link to the survey was sent to the CEOs, owners, or chairpersons of the board of SMEs. A total of 421 responses were received, resulting in a response rate of 11.5%. The effective response rate was 52% (calculated by comparing those who opened the survey link (N=816), to those who filled in the survey (N=421). Over half of the respondents (61 %) were from firms employing one or two people and 53 % operated in the services sector. The split between B2C (45.6 %) and B2B (45.1 %) was almost even (Table 2).

Interviews in case companies								
Company label	Industry and number of employees (in parentheses)			Interviewed (age in parentheses)			Interview duration	
A	IT, B2B (9)			CEO (35)			118 min	
B	Footwear importer, B2C (5)			CEO (37)			145 min	
C	Fair and congress services, B2B and B2C (90)			CEO (56)			111 min	
D	Printing materials, B2B (13)			Sales Manager (30) Key Account Manager (26)			92 min	
E	Special construction materials, B2B (40)			Marketing Manager (30)			62 min	
F	Emission control equipment, B2B (8)			Marketing Manager (41)			61 min	
G	Heat water electricity, B2B and B2C (250)			Marketing Manager (32)			97 min	
H	Payment services, B2B (40)			Export Manager (30) Marketing Producer (34)			133 min	
I	Wood manufacturer, B2B (120)			Marketing Manager (39)			113 min	
J	Bakery / Restaurant, B2C (200)			Business Controller (45)			84 min	
K	Restaurant, B2C (40)			CEO (59)			118 min	
L	Caravan and Cars, B2C and B2B (20)			CEO (35)			92 min	
M	Measuring equipment, B2B (72)			Marketing Manager (44) Sales Manager (56)			59 min	
Sample characteristics								
Industry	N	%	Customers	N	% <sup>a</sup>	Size <sup>b</sup>	N	%
Services	223	53.0	Consumers (B2C)	191	45.6	Micro (1-2)	257	61.0
Other	87	20.7	Businesses (B2B)	189	45.1	Small (3-20)	164	39.0
Retailing	59	14.0	Government (B2G)	39	9.3			
Industrial commodities	52	12.4						
Total	421	100	Total	419	100	Total	421	100

Notes: <sup>a</sup> Valid percentage (2 missing values), <sup>b</sup> Size = Number of employees

Table 2: Sample characteristics

## RESULTS

### Digital Marketing Utilization In Smes

According to the survey findings, close to half (46 %) of the respondents said they utilized digital marketing poorly or extremely poorly. Just 7 % described their current digital marketing as very good or excellent. Company investment in digital marketing varies substantially; slightly over one-third (35 %) of the respondents stated that their investments in digital marketing absorb less than 5 % of their marketing budget, whereas slightly over a quarter of the respondents (26 %) allocated over 41% of their marketing budget to digital channels. There are significant statistical differences ( $p < .05$ ) in the utilization of digital marketing in terms of SME size (Table 3). As can be seen, firm size does not affect the allocation of digital marketing

budgets, but does have a significant effect on the self-reported utilization of digital marketing. Larger firms utilize digital marketing better, even though the majority perceive that they are not doing it well (mean score 3.19 on a scale ranging from 1–7). Companies who reported investing more in digital marketing perceived that they utilized it better. This indicates that the companies that have adopted digital marketing and made the necessary investments have also been able to take advantage of these tools.

	All	1-2 employees	3-20 employees	
	Mean	Mean	Mean	sig.
Utilization of digital marketing <sup>1</sup>	2.90	2.73	3.19	.007**
Digital marketing budget allocation <sup>2</sup>	2.87	2.78	3.02	.123

Notes: <sup>1</sup>Scale anchored with 1=*extremely poorly* and 7=*extremely well*  
<sup>2</sup>Scale: 1=less than 5% (of the marketing budget), 2=6–10%, 3=11–20%, 4=21–40%, 5=41% or more

\* significant at  $p < .05$ , \*\* significant at  $p < .01$ , \*\*\* significant at  $p < .001$

Table 3: SME utilization of digital marketing and allocation of digital marketing budget

According to the survey, the digital marketing channels used most often were the company's own website, SEO, and social media (Table 4). However, none of these channels was utilized very actively. For example, whereas one-third (34 %) of respondents said they utilized their company's website actively for marketing purposes, 30 % said it was not utilized at all. Additionally, close to half (45 %) did not utilize SEO at all and just 12 % used it actively. With respect to social media, including the use of social media services such as Facebook, LinkedIn, YouTube and discussion forums, half of the companies (49 %) did not utilize them at all and just 13 % used them actively. Firm size has an effect ( $p < .05$ ) on the activity of digital channel utilization in marketing and communications in all cases except for social media, companies' own communities and blogs, and email advertising.

	All	1-2 employees	3-20 employees	
	Mean	Mean	Mean	sig.
Company website	3.70	3.46	4.08	.003**
Search engine optimization	2.58	2.33	2.98	.000***
Social media in general	2.57	2.44	2.77	.083
Search engine advertising	2.51	2.29	2.86	.002**
Email newsletters	2.42	2.16	2.84	.000***
Email advertising	2.26	2.21	2.33	.447
Company's own communities	2.00	1.97	2.04	.640
Company generated blogs	1.45	1.39	1.56	.143
Online advertising	1.32	1.20	1.49	.000***

Notes: Scale anchored with 1=*not in use* and 6=*in active use*

\* significant at  $p < .05$ , \*\* significant at  $p < .01$ , \*\*\* significant at  $p < .001$

Table 4: Utilization of digital channels in marketing and communications by firm size

The interviewees representing 13 SMEs support the findings. All the case companies had a website that was regarded as the most important digital channel for marketing and communications. The other digital channels most commonly used and ranked as the most important were email newsletters (used by 7 of the 13 SMEs) and social media (used by 6 of the



13). In line with the survey findings, the interviewees confirmed that company size did not explain social media usage for marketing purposes.

### Objectives Of Digital Marketing Channels

The sales-centric nature of SMEs was clearly evident from the results related to the goals set for digital channels (see Table 5). Overall, the most important objective set for each digital tool was to facilitate sales (always in the top three). Other important goals reported were facilitating communication and enhancing customer service. Offering the opportunity for dialogue with customers and assisting recruitment were reported to be the least important objectives for digital tools. Slightly over half (55%) rated their website as the most important tool for increasing sales to existing customers. It was also rated as the number one tool for enhancing customer service, facilitating communication, disseminating advertising, strengthening the brand and for recruitment. Search engine marketing, including both optimization and advertising, was rated as the second most important tool for increasing sales and facilitating advertising. Social media was not perceived as a tool with the primary purpose of initiating dialogue with customers. Instead, social media use was viewed as serving the primary objective of increasing sales. Email marketing was regarded as the most important tool in terms of facilitating dialogue with customers.

	Increasing sales to existing customers		Enhancing customer service		Facilitating communication		Facilitating advertising		Strengthening Brand		Facilitating dialogue with customers		Recruitment	
	%	N	%	N	%	N	%	N	%	N	%	N	%	N
Company's own website	55.3 %	233	43.0 %	181	37.5 %	158	29.2 %	123	27.3 %	115	9.3 %	39	3.1 %	13
Email marketing	41.3 %	174	35.6 %	150	30.2 %	127	16.4 %	69	12.1 %	51	23.0 %	97	1.7 %	7
Social media	27.6 %	116	22.3 %	94	23.8 %	100	16.6 %	70	20.7 %	87	18.3 %	77	3.1 %	13
Search engine marketing	46.8 %	197	15.4 %	65	22.1 %	93	28.5 %	120	16.6 %	70	5.4 %	24	1.4 %	6
Online directories	29.5 %	124	18.1 %	76	16.2 %	68	16.9 %	71	7.1 %	30	3.8 %	16	0.7 %	3
Online advertising	21.6 %	91	7.1 %	30	10.7 %	45	12.8 %	54	9.7 %	41	3.3 %	14	1.0 %	4

Notes: Respondents nominated a maximum of three main objectives for each channel

Table 5: Objectives for digital channels

Among the firms whose representatives were interviewed, only two had set a clear goal for their website: attracting new customers. For social media channels, the goals set seemed to be even vaguer although one company stated that the purpose of their Facebook page was to facilitate communication. Although almost half of the interviewed companies used social media, none of them used social media for the purposes of dialogical communication; instead they used the channel primarily to post company news. Social media was still seen as a largely informal and relaxed communication channel. Basically our Facebook page is used so that it has all the information that is maybe not important enough for the web site but still something of a more

regular update to customers. For example if our printing house has send us new samples or something and then I take a quick picture with my phone and upload it there and say, hey new samples, looking great. It is just a regular update there -collection of pictures, photos and other stuff. (Key account Manager, Case D)

We have 50 active followers on Facebook. So what, when we don't know what to do with them! The time we know how the 50 people open their wallets for us we can actually use that information that there are 50 of them! Otherwise it is plain charity. (Marketing Producer, Case H)

All the companies were also well aware that it is possible to measure the influence of marketing practices through digital channels; however, only a few respondents were able to clearly state what should be measured and primarily, what marketing goals they should set. It seemed that digital marketing within the companies studied was mostly implemented in an ad hoc rather than a well-planned manner.

We need a common understanding within our company of what we want to communicate in different channels and what we want to achieve with them. Our marketing is not well planned – we would need more measuring. I don't know what we should follow. (Company J)

### Key Drivers Of Adoption

The main reasons why the surveyed SMEs started to utilize digital marketing are shown in Table 6. Speed of communication, cost savings, and changing customer behaviour are the three key drivers reported. A total of 64 % considered the speed of communication as an important or very important reason for adopting digital marketing, whereas only 18 % regarded it as unimportant or very unimportant. Slightly over half of the respondents perceived cost savings as an important or very important reason for adopting digital channels in marketing. Over half (56 %) said changing customer behaviour was an important or very important reason for using digital marketing. Digital channels were not often used to initiate dialogue with customers. Although close to one-third (28 %) reported this to be an important or very important reason for use, almost half (46 %) regarded it as either unimportant (22 %) or very unimportant (24 %). Surprisingly, sales focused SMEs regarded “increasing sales to existing customers” as the second least important reason to adopt digital tools. This indicates that SMEs might not be aware of the sales-related opportunities that digital platforms like online stores offer even for SMEs. SMEs with one or two employees generally regard the various reasons listed as less important than larger SMEs do. No differences ( $p < .05$ ) were found with respect to cost savings, increasing sales to existing customers, and facilitating dialogue with customers.

	All	1-2 employees	3-20 employees	
	Mean	Mean	Mean	sig.
Speed of communication	3.67	3.53	3.89	.006**
Cost savings	3.46	3.45	3.47	.881
Changing customer behaviour	3.46	3.35	3.63	.031*
Customer acquisition	3.43	3.29	3.65	.006**
Building awareness	3.41	3.29	3.59	.027*
Better targeting of messages	3.39	3.20	3.68	.000***
Enhancing customer service	3.32	3.20	3.52	.012*
Increasing sales to existing customers	2.93	2.83	3.08	.064
Facilitating dialogue with customers	2.70	2.61	2.86	.056

Notes: Scale anchored with 1=*not at all important* and 5=*very important*

\* significant at  $p < .05$ , \*\* significant at  $p < .01$ , \*\*\* significant at  $p < .001$

Table 6 Reasons for digital marketing utilization by firm size

### ***Barriers And Enablers Of Digital Marketing In Smes***

Not surprisingly, the interviewees identified the biggest obstacles to wider use of digital marketing to be company resources, including knowledge (an issue for 8 of the 13 SMEs) and human resources (an issue for 7 of the 13). A lack of monetary resources was mentioned by only two of the firms. Uncertainty about how to use new digital tools and finding the right person to take care of digital marketing within the company were the main obstacles specified.

The interviews revealed that most managers were aware of the limited IT competence within their organizations but did not perceive it to be a barrier. There were both digital enthusiasts and others who were less interested, who had succeeded in building a wide online presence for the company, either through using internal resources or with outside help. Buying knowledge from outside was generally considered a good way to develop and maintain external communications. On the other hand, the two companies with marketing staff, who were excited and knowledgeable about digital marketing, were far ahead of the others in using it. It seems that the IT affinity of the staff still influences SMEs' online engagement.

I think most of that has come through you [Account Manager] and I think your personal interests are also there, as is usual with people when you have an interest in certain things, you like working with them, you're good at that and you develop yourself in those areas. (Sales Manager, Case D)

It's kind of a hobby basically, this social media marketing thing and that's why I try to use it on a company level and see what new things are around, how it works, and how it develops. (Account Manager, Case D)

The other important reason cited in the interviews for not using social media channels actively in marketing and communication was management resistance. Some company executives had acquired prejudices about the use of social media. Some of their fears and assumptions were unfounded and caused by the unfamiliarity with different channels and how they worked. Another common reason to avoid using social media like Facebook in marketing was that the managers did not have a clear goal for it and did not see how it could add value to their company. Another important issue was that the marketing managers were not confident about what they should communicate through different channels.

Company orientation and the customers' demographic location played a major role in the choice of suitable channels, whereas less evidence was found for the impact of the competitive situation. The problem was one of choosing the most efficient channels in the field of digital marketing, where established communication vehicles and traditions are rare, and that issue deterred investment in new digital tools.

We are wasting huge amounts of money just because we don't have a crystal ball. We are using too many channels and vehicles to advertise and our efforts are to a large extent useless. (CEO, Case C)

### **CONCLUSIONS**

This study contributes to the emerging digital marketing literature by providing an overview of the usage, objectives, drivers, and challenges related to digital marketing in SMEs in one region

(Uttara Kannada District of Karnataka State). Our study shows that the SMEs participating in this research have not widely adopted digital tools for marketing purposes. When viewed in the light of the penetration of the internet and social media usage in Finland, the results of this research are surprising and somewhat alarming. The results indicate that regional development of the internet and the usage of digital tools for marketing purposes in companies do not go hand in hand as might be expected.

Although digital channels were not actively used, online visibility can be considered the most important element of the digital marketing mix as the website and SEO were the two channels most often used. This finding is in line with the previous research on SMEs' marketing goals related to the creation of awareness (Reijonen, 2010). The usage of more advanced digital channels such as online advertising and company generated blogs remained lower which is consistent with the Eriksson *et al.*, (2008) study conducted in Sweden. In the same vein, increasing sales for existing customers was seen as the second least important reason to adopt digital tools which might be because SMEs are not fully aware of different online sales options, which might often be perceived to require more advanced IT skills. In contrast to the findings of Eriksson *et al.* (2008), this study did not identify email as among the top digital channels used in survey results, but among the interviewed companies sending email newsletters was considered the second most important tool. In addition, our research identified SEO and SEA as the top used channels; although it is impossible to state with any certainty whether the lack of understanding of their potential identified by Karjaluoto and Leinonen (2009) has improved because relative utilization was still low among our respondents. SEO and SEA have certainly become better known among SMEs in the last few years. The willingness to utilize these tools is also likely to have improved because their influence on website visitors is easily confirmed, and both tools are also relatively cost effective and easy to use. This view is in line with the previous research that indicates that important factors affecting the adoption of digital marketing tools are tangible benefits that the company can identify (Chong and Pervan, 2007; Kaynak *et al.*, 2005; Levy *et al.*, 2005); ease of use of the new channels (Kaynak *et al.*, 2005; cf. Davis, 1989; Gefen and Straub, 2000); and having an opportunity to try the channels in practice (Levy *et al.*, 2005).

Social media was claimed to be the third most important channel. However, the findings further indicate that social media is not understood as a two-way communication channel capable of serving relationship building, as had been suggested by the literature (Ahuja and Medury, 2010; Cho and Huh, 2010; Hennig-Thurau *et al.*, 2010; Kaplan and Haenlein, 2010; Liu *et al.*, 2011; Malhotra *et al.*, 2013; Singh *et al.*, 2008). In addition, the study confirms that regardless of firm size, SMEs use social media in the same way they use other digital channels; as a form of one-way broadcasting while attempting to drive sales. The utilization of digital tools differs greatly according to company size. Our findings mirror those of Bordonaba-Juste *et al.* (2012), Teo (2007) and Barnes *et al.* (2012), indicating that larger companies (in our study employing 3–20 people) utilize most of the examined digital tools more actively and get more out of them than smaller firms (in our study, those employing 1–2 people).

With respect to the reasons for SMEs delaying the adoption of digital tools, we can conclude that external factors advocate the adoption of digital channels in marketing but firm-specific, owner-manager factors and resource-related factors delay the adoption, a finding in line with previous

research (Lockett and Thompson, 2001; Hawawini *et al.*, 2003). Additionally, the greatest barriers to adopting digital channels in marketing are lack of resources; mainly lack of knowledge and time (see e.g. Chen and McQueen, 2008; Gabrielli and Balboni, 2010; Gilmore *et al.*, 2007; Järvinen *et al.*, 2012; Karjaluoto and Huhtamäki, 2010; Sayre *et al.*, 2012). In particular, lack of knowledge of different digital channels and also of the new norms governing digital media were perceived as formidable obstacles. Our data does not confirm a lack of financial resources to be a barrier to adoption (cf. Cooper *et al.*, 1994; Federico *et al.*, 2012; Gilbert *et al.*, 2006). The pivotal factor in the usage of digital tools seems to be whether the marketing manager is knowledgeable about the digital options and actively pursues his/her personal interest in the tools. In companies where the person in charge of marketing was active on social media on a personal level, the company was too. This is a common situation, especially in smaller companies (see e.g. Chao and Chandra, 2012; Chen and McQueen, 2008; Gabrielli and Balboni, 2010; Karjaluoto and Huhtamäki, 2010; Michaelidou *et al.*, 2011). However, the outsourcing of the utilization of social media tools was considered a good option and a facilitator of digital marketing usage. The availability of external help to facilitate adoption of digital tools was also found to be an important factor in previous research (Järvinen *et al.*, 2012; Karjaluoto and Huhtamäki, 2010). In addition, another sizable barrier to adoption of digital channels was their perceived usefulness, as Gilmore *et al.* (2007) also noted. The interviewees were not familiar with the real benefits of the channels for marketing purposes. SMEs do not have the luxury of trying out new tools where there is no clear sales goal associated with the tools. However, theory still suggests that trying new channels is an important factor in enhancing perceived usefulness (Levy *et al.*, 2005). To summarize the main findings of this study, these results confirm the assumption that many SMEs do not use the full potential of the new digital tools and hence are not fully exploiting the opportunities they can bring (Gilmore *et al.*, 2007). The results of this study also raise the question of whether SMEs have understood the fundamental change in the nature of communication brought about by digitization. The unplanned digital marketing activities and the ad hoc nature of marketing implementation reported in the interviews with SME marketing representatives speaks for the lack of knowledge of the whole digital marketing concept. In addition, opportunities for dialogue were considered the least important reason to adopt digital marketing tools thought interactivity within the internet was seen as having an important impact on a company's positive online performance (see Simmons, 2007). Employing digital marketing as a non-dialogical tool and seeing increasing sales as one of the least important reasons to adopt digital tools might mean that firms are not using social media and other digital devices efficiently and so might not be fully exploiting the potential of the new tools. SMEs seem not to be keeping pace with digital development.

### **Managerial Implications**

The digitization of buyer behaviour is a progression that SMEs should follow to enhance their ability to compete in the market of the future. The low adoption of digital channels among regional SMEs in a digitally well-developed territory might open up new market opportunities for new digitally aware companies from beyond its borders. There is evidence of this phenomenon in the context of online shopping: a study of 9,300 Finnish online shoppers found that online purchases from other countries rose by 15 % in 2012 and currently account for around 15 % of the total online shopping market (TNS Gallup, 2013). The reality is that companies should make sure they can be found online. That nowadays requires far more than

just setting up a website and optimizing it for search engines.

The results revealed that firms that have adopted digital marketing and made the necessary investments have also been able to take advantage of those tools. This indicates that acquiring digital marketing requires investing monetary resources, but more importantly, requires the investment of time. This study again highlights the importance of training key marketing personnel in the company to use the new digital tools. Marketing managers should be trained, but so should both other middle managers and senior management, at least in terms of the new order brought by digitization. Companies should first understand this new environment before they can utilize the full potential of the new social media tools (cf. Fournier and Avery, 2011). Discussions on the future regional development of SMEs have called for training programmes to help SMEs exploit digitization. This is something that the government should take note of.

With regard to the importance of social media usage in SMEs, as Spenner and Freeman (2012) pointed out, consumers have little interest in building social ties online with brands: they just seek information about products and good deals. The utilization of social media in SMEs is challenging as few SMEs are media houses, and in most cases are not capable of creating interesting content on the various platforms available to them like a blog, Facebook or Twitter. To do so would be complicated first by the creation of such content not being their main line of business. Costs are also difficult to justify as the return on investment is difficult to evaluate. Instead of considering focusing on content marketing and spending time on social media, it might still be smarter to focus on the core business of the company, making sure it offers the best possible products or services to its customers and to build its digital marketing strategy around the website. Such a strategy is likely to be served by the use of SEO, SEA, and online advertising, and would ensure the online strategy remains simple. Nevertheless, social media is about listening, participation and sharing. The dialogical nature of digital media does not necessarily mean that companies have to maintain an active presence in social media. However, understanding that dialogical nature of the digital age will bring about a fundamental change in business practices. Customers expect to be heard, listened to and taken notice of, which challenges SMEs to be genuinely customer centric. If a company is able to provide the best possible experience to its customers, those customers are likely to relate their experiences of dealing with the company on the web.

### ***Limitations And Future Research***

The findings of this study should be interpreted in the light of certain key limitations. First, the study is explorative in nature. Second, as with any case study, the results are limited by the study context. Third, although the empirical material consisted of both company interviews and survey data, the data comes from one region (Uttara Kannada District) and therefore the results cannot be generalized to other settings. Moreover, half of the surveyed companies are micro firms, and the vast majority operate only in the domestic market, which influences our results. The interviewees in this study were responsible for marketing activities in the companies, but they also often had other roles in the organization, which might also have influenced the results. The worrying aspect of the results is that SMEs are not aware that they could use digital channels in their marketing programmes. There seems to be a requirement to improve knowledge of how the various channels available can work together, and of their potential to benefit an SME. This is where researchers can help SMEs to keep up with developments. It would also be beneficial to inspect in more detail the reasons why some firms use less and some more digital marketing and also find out whether the product type, customer type, or the region

where the company is located explains the differences. We would also strongly encourage researchers to examine SMEs across various industries that have gained measurable benefits from using social media as a two-way communication channel. Finally, more research is warranted into the utilization of digital tools to grow sales.

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