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The Impact of Market Penetration Strategy and Market Development Strategy on the Competitive Advantage of Manufacturing Based SMEs

Sidi Bello Alkasim¹, Haim Hilman², Manaf Bohari², Shahmir S. Abdullah²,
Mohd R. Sallehuddin², Ries Fathilah³ and Nek Kamal Yeop Yunus⁴

¹ Department of Marketing, CABS, Umaru Ali Shinkafi Polytechnic, Sokoto State, Nigeria, E-mail: alkasimsidi32@gmail.com

² School of Business Management, Universiti Utara Malaysia

E-mails: bilman@uum.edu.my, manafdr@edu.my, shahmir@uum.edu.my, rashdan@uum.edu.my.

³ Posim Petroleum Marketing Sdn. Bhd.

⁴ Universiti Pendidikan Sultan Idris, Malaysia

Abstract: The main objective of this study is to examine the relationship of market penetration strategy, market development strategy and the competitive advantage (cost leadership) of manufacturing based SMEs in Nigeria. The study employed structured questionnaire survey involving 453 manufacturing based SMEs operating in Kaduna state, Kano state, and Sokoto state, the total of 277 valid questionnaires representing 61% response rate was used for the final analysis using PLS-SEM to test the hypotheses. The study finding shows that market penetration strategy has a significant positive impact on cost leadership. Similarly, the result found that market development strategy had a significant positive influence on cost leadership strategy of manufacturing based SMEs of Nigeria. The findings of this study will support owners-manager competency toward creating competitiveness, enhance market share, and sustain competitive advantage. Also, the framework will serve as a blue print for Government agencies to educate SMEs on the importance of competitive advantage toward creating competitiveness and competitive advantage. Finally, future studies were recommended to improve our understanding.

Keywords: Cost Leadership Strategy, Market Penetration Strategy, Market Development Strategy

I. INTRODUCTION

The trend of today's rapidly changing business environment lays on the firm's ability to achieve competitive advantage. Both Product-market strategy and competitive strategy are both developed for corporate strategic management perspective [1]. For an organization to remain competitive depends on the management ability to reconfigure, integrate and rebuild its internal resource to reflect and address the dynamic of the

environment, to improve their competitiveness [2]. Global market competition has challenges organization to outshine others and gain competitive advantage [3]. These issues challenged organizations with the responsibilities to make a strategic choice on how they can best sustain competitiveness and achieve competitive advantage [4]. Thus, the strategic choice may involve; identifying strategic options that are possible for a firm to work on, selecting real strategic options for implantation, rejecting unnecessary ones, and allocate resources among the chosen options [3]. However, the focus of this study is to the cost leadership strategy, due to its significance for manufacturing based of SMEs in sustaining competitive advantage [3], towards creating better competitiveness and market share.

Most of the manufacturing based of SMEs in developing nations are struggling to compete effectively at both domestic and national market [5], especially, the manufacturing firms of Nigeria. Even though, many fails, but still some succeed. Many issues jeopardize their competitiveness, such as poor financial support, lack of strategic factors, poor management capabilities and marketing strategies [6]. It is essential for firms in such condition to have strategic resources that would support and increase their competitiveness and market share, which would enable sustainable competitive advantage.

Meanwhile, this paper will argue that pursuing a growth level strategy. Specifically, the market penetration and market development strategies are potential options that a firm may consider to improve competitiveness and market share. These strategies factors are firm's resource, which attempt to shape competitive environment [7]. Through the product-market strategy relationships, may rely on market penetration strategy and market development strategy, with the aim to contribute to firm's growth and development [8, 9].

Previous studies have primarily emphasized on product development and diversification strategy [10, 11, 12, 13], such studies, fail to explain why organizations give less or even depart from market penetration and market development strategies.

There are few studies that identified the effect of strategic factors such as [14, 8, 15, 16, 17, 18]. Whereas these studies, demonstrates the importance of the product-market strategy as a firm's and industrial antecedents in shaping growth and competitiveness [19, 20, 9, 21]. Empirical studies on the effect of market penetration and market development strategy on cost leadership strategy are limited.

Following [22] dynamic capability's view recommendation that firms pursuing strategic growth orientation may integrate their firm's resources as a choice to invest in a competitive strategy to sustain competitive advantage and improve competency. Agreeing with strategic alignment perspective [23], a firm may consider product-market strategy as an alternative to cost leadership strategy, given that strategic alignment often concerns "deterministic approach," which suggest the management to respond to the changes in the competitive environment. Based on the existing literature, the product-market strategy can thus be viewed as an alternative and or align with competitive strategy. Therefore, this paper aimed to investigate the impact of market penetration strategy and market development strategy on cost leadership strategy.

II. LITERATURE REVIEW

(A) Cost Leadership Strategy

Cost leadership strategy is developed through cost efficiency in all responsibilities, which includes production process, R&D, and marketing activities [24]. The key drivers of cost leadership is related to mass production

efficiency for a particular market, level of product quality [25], massive distribution of good and services [26], advertising and promotion [27], technology, access to raw materials and economic of scale [28]. For a firm to sustain cost leadership advantage, thus, a firm must avoid all activities that are not cost advantage oriented and focus on organizing more sales agents [28].

[24] argued that competitive strategy might be useful for firms to position its strategy in the industry. Cost leadership strategy enables firm's to achieve efficiency with regards to production and distribution of products and services. Most of the enterprises that pursuing cost leadership strategy, generally have a strong need for external financing [24] such firms need a source of cost advantage, which can be achieved through 'pursuit of economies of scale, technology, and access to raw material.

Firms in emerging market today are experiencing significant changes, in that regards many organizations are significantly changing their strategies [29]. Firms in such environment emphasis on cost leadership advantage, in order to enhance competitiveness and sustain competitive advantage. For instance, Asian enterprises were able to achieve competitiveness across the continent [26]. Moreover, increase their global market share, from cost leadership advantage through low-cost advantage, mass production and distribution, which effectively improve their, competitiveness and competitive advantage [29, 29].

[30] acknowledged that firms were succeeding low-cost advantage over their competitors. Which indicates a company's strength, market pricing, and product design as a form of distinguishing their brand from others. As such these firms introducing product segmentation in the current market, or existing product in new market segments [31]. Therefore, these suggest firms may operate at lower cost and employ high promotion and low pricing to build and improve market share for both new and current market segments [1]. [32] suggested that to gain cost leadership advantage firm should emphasize on cost minimization and involve in the process of product market strategy.

Additionally [33] and [34] cost leadership allow firms to achieve economies of scale, reduce cost and increases market share. [35] stated there are many strategic processes in the manufacturing based of SMEs, such as management process, production process, and marketing process. Thus, these are processes that manufacturers can perform efficiently in order to enhance competitiveness and increase greater market share better than competitors [32]. A firm struggling to compete effectively, therefore, market penetration strategy and market development strategy would support firm with competitiveness and improve their market share.

(B) Market Penetration Strategy

Market penetration strategy is a basic of firm's product-market strategy that is aimed towards increasing firm's market share for both new and existing product-market strategy [36]. MPS is suggested as the first strategy in which a firm focus to increase its sales and enhance existing and potential market share over their competitors [8]. The choice of MPS gives firms the opportunities for creating more shares from the existing market [20]. Hence, firm's following this strategy gain effective market competitiveness and competitive advantage [37]. However, this strategy is a useful approach that enables firm to grow and survive in a competitive environment. Moreover, the concept has been described as a firms' strategic element, which functions as firm's strategic growth [36, 8], as well as generic business strategy [38].

Previous studies suggest that increasing firm's sales and market share depend on strategic orientation [4, 8, 38]. Firms pursuing MPS targeting to increase market share requires giving more focus on marketing mix [1]. Also argued that MPS involve selling of firm's product through low pricing, better promotional activities, and intensive distribution. Therefore, MPS is essential for a firm to enable its product life cycle management from an introduction to growth stage as well as the early stage of its maturity stage [12]. To gain effective competitiveness and market share, manufacturing based strategies should be integrated and rebuild sustainable competitive advantage [32]. Particularly, cost leadership strategy would enable firms in many ways, which include, higher profit margins and low-cost advantage [39].

However, cost leadership strategy would allow firms to focus on low-cost operations and translates products offering at prices below their competitors [40], which strengthen the firm's competitiveness and competitive advantage over its rivals. For example, using advanced technology and other forms of productions to reduce operating cost, with such technological edge can shut down real competitors and sustain competitive advantage [41]. However, firms should integrate and rebuild their competency in order to improve their market share and sustain to competitive advantage, to achieve competitiveness for SMEs need to focus to defined their customer's segment, particularly for firms with limited resources [42, 24]. Thus, MPS targeting market share in a single segment may sometimes enable a firm to pursue market development strategy and expand its product market to the next segmentation.

(C) Market Development Strategy

Market development strategy (MDS) is an organizational approach, which emphasizes to expand firm's product in the current and new markets, with regards to both new and present product [36]. MDS recommends expanding the firm's income level via exploring their existing products to the new markets [8], market responsiveness [43] and market segmentation [1]. [44] suggest that MDS has become a significant source of gaining market share globally, and MDS has been adapted for SMEs in the industrialized nations. This strategy would help the manufacturing based SMEs in the developing economies [44], to enable there market responsiveness effectively [43], gain competitiveness and increase their market share. Therefore, MDS provides firms with confidence for responding to market dynamics in competitive environment, which would be valuable for firms to increase market share and enhance competitive advantage [44].

Existing literature has suggested that market development strategy serves as a solid strategic alternative with regards to the expansion of firm's brand and or market segmentation [1], this would enable firm's to improved its marketing mixes to the serving market segments. Using marketing mix can enhance a single market segment, which would allow firm to go beyond its position and offer its brands to multiple market segments [1]. However, he argue that it is important for a firm to distinguish customers separate from homogeneous into heterogeneous segmentation, for example targeting customers age segments and location; expand its operations from local to regional or from national to international. While brand expansion would enable firm's to provide the customer with more choices in the target segments [45, 19], such as additional service, delivery, and promotional gifts can enhance competitiveness by providing customers with greater value [42].

However, an organization pursuing MDS suggest providing firm's with stable product and market [8], to effectively sustain competitive advantage. A firm must support and integrate MDS with cost leadership strategy to build effective competitive advantage [46, 22]. Hence, facilitate firm's effort towards production

and distribution on cost advantage, while simultaneously supports the product management [47]. To sustain a healthy competitive advantage, aligning MDS and cost leadership advantage may provide manufacturing based SMEs with greater market share and sustain their competitive advantage [46]. A firm can have novel business model that support and enhance the effectiveness of cost leadership advantage [48], this will consider the company's competitiveness and increase market share as a result of lower cost operation and production efficiency [33].

Based on the above literature review, the research question of this study is to determine the influence of market penetration strategy and market development strategy on cost leadership strategy. Given the gap on this perspective, this study intends to address the following hypotheses.

H1: Market penetration strategy is related to cost leadership strategy.

H2: Market development strategy is related to cost leadership strategy.

III. RESEARCH FRAMEWORK

The strategic implementation perspective described that firm based strategies affecting the firm's operation could influence competitiveness and competitive advantage [49, 37, 50, 22]. [51] measured cost leadership as a function of firm's internal resources that enhance firm's competitiveness and competitive advantage over their competitors. Hence, this study described upon the framework based on strategic implementation perspective by stressing that market penetration strategy and market development strategy affects the firm's market share towards cost leadership advantage. Therefore, the study integrates the market penetration and market development (corporate strategy) and cost leadership (competitive strategy) to generate better competitiveness, market share and competitive advantage, based on strategic alignment between firm's strategies resources. Below illustrates the relationship between growth level strategy and SME competitive strategy.

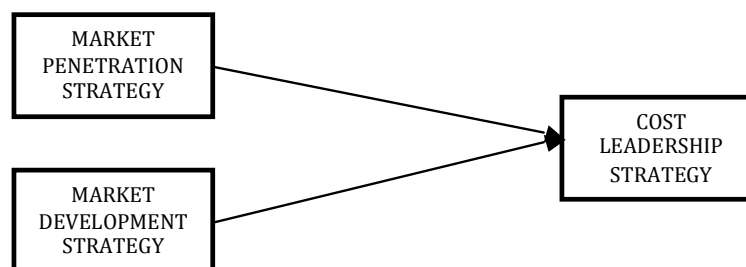


Figure 2: Theoretical Framework

IV. METHODOLOGY

(A) Sampling and Data Collection

The population of this study is 1,814 manufacturing based SMEs, which registered with agencies such as CAC, MAN, and SMEDAN in the North West of Nigeria [5]. The Northwest is the most populated region that includes; Kaduna, Kano and Sokoto State. About 77.8% of manufacturing based SMEs' are located in these states with a total number of 1,420 SMEs. The population of this study is in line with the previous

studies of [52]. However, the sample of this study is 302 SMEs based on [53] sampling table, 50% of the samples were added to avoid nonresponses error and other sampling issues ([54].

However, 329 questionnaires retrieved from the owners-managers of manufacturing based SMEs, even though 26 questionnaires were rejected as found to be wrongly answered. Thus, left with 303 for data cleaning. SPSS V23 were used for the data entry and screening, missing value and fit between distributions and the assumption of SEM. 17 items were replaced with missing data, and 26 cases were deleted, based on the outlier threshold ± 3.29 . 277 cases were left for further analysis.

V. DATA ANALYSIS

Data were analyzed using SEM, via Partial Least Square (SmartPLS 2) due to the number of sample size [55]. (See Figure 2).

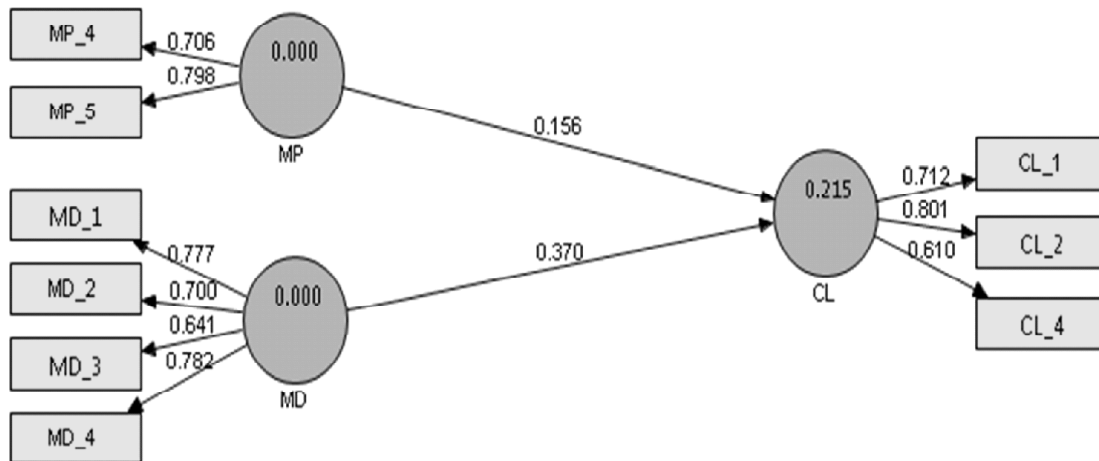


Figure 2: PLS-SEM Algorithm

(B) Measurement Model Analyses

The study examined the construct validity, following two-step modeling approach as recommended by [55]. Start with measuring the convergent validity and reliability, followed by discriminant validity. The table below represents the internal consistency reliability. As a rule of thumb, the construct validity is to confirm if the loadings are between 0.4 to 0.7; composite reliability (CR) is greater than 0.7; average variance extracted (AVE) is greater than 0.5 [55, 56]. Loadings with < 0.7 may be deleted to determine the threshold of CR 0.7 and AVE 0.5 and above respectively [55].

Thus, 4 items for MPS, 2 items for MDS and 3 items for CLS were deleted because of their low loadings in order to meet the threshold of CR and AVE [55, 56]. Therefore, the CR value for the constructs met the recommended threshold value, as the table below indicates the values range between 0.724 to 0.817, showing the reliability of the measurement model is established. For the result of AVE, values range from 0.507 to 0.568, which indicates the convergent validity is established. The analysis shows that convergence validity of the constructs/latent construct explains half of the variance of its indicators.

Table 1

Constructs	Items	Loadings	CR	AVE
Market Penetration Strategy	MP_1	0.706	0.753	0.507
	MP_4	0.798		
Market Development Strategy	MD_1	0.777	0.817	0.529
	MD_2	0.700		
	MD_3	0.641		
	MD_4	0.782		
Cost Leadership Strategy	CL_1	0.712	0.724	0.568
	CL_2	0.801		
	CL_4	0.610		

* Result of Measurement Model

This study confirmed the discriminant validity, which determines theoretical of the measures of a construct is not related to each other [55]. The most conventional approach is assessing discriminant validity is Fornell-Lackert criterion [55].

Therefore, in this study, discriminant validity was evaluated by comparing the square root of the AVE for each construct with the correlation presented in the correlation matrix. Table 2 below represents the results of the Fornell-Lackert.

Table 2

Constructs	1	2	3
Market Penetration Strategy	0.754		
Market Development Strategy	0.469	0.728	
Cost Leadership Strategy	0.329	0.443	0.712

* Fornel Lackert

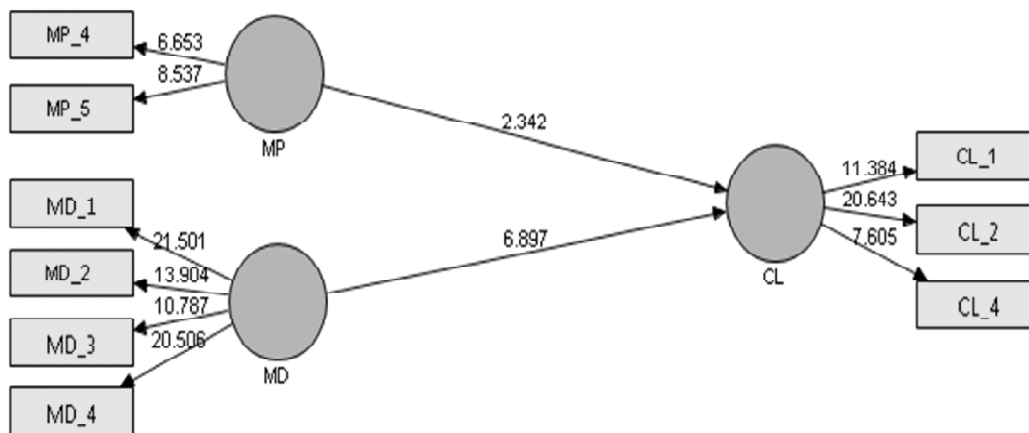


Figure 3: PLS-SEM Bootstrapping Relationships

(C) Result of Hypothese Test

This study examines the relationship between market penetration and market development on the cost leadership strategy of manufacturing based SMEs in Nigeria. The interpretation of the hypotheses analyses are summarized and presented in Table 3. The H1 result shows that market penetration strategy has positive significance impact on cost leadership strategy (Beta =0.156; t =2.342, p> =0.05). The finding is consistent with the studies of [46]. Besides, the hypothesis H2 indicates that market development strategy has a significant positive influence on cost leadership strategy (Beta = 0.370; t =6.897, p> =0.01) and the result is consistent with the findings of [57, 46]. Hence, all hypotheses tested in this study, H1, and H2 are supported.

Table 3

<i>Hypothesis 1 & 2</i>	<i>Beta</i>	<i>STD.ERR</i>	<i>T. Value</i>	<i>Decision</i>
MPS -> CLS	0.156	0.066	2.342**	Supported
MD S-> CLS	0.370	0.054	6.897***	Supported

Note: p>0.01=***, p>0.05=** Structural Model (Hypotheses)

The study also assessed the effect size f2 to confirm the level contribution of each construct on the main construct in the structural model (R2 0.215), hence, the threshold for effect size as suggested by [58] as 0.02 as small; 0.15 as medium and 0.35 as large. Table 4 below represents the assessment of the total effect size f2 contribution for each construct. Inconsistent with the rule of thumb for f2, the effect size for the MPS can be considered as small the f2 is 0.115; MDS effect size the relationship can be interpreted as small the f2 is 0.026.

Table 4

<i>Constructs</i>	<i>R² Included</i>	<i>R² Excluded</i>	<i>f²</i>	<i>Effect Size</i>
CLS	0.215			
MPS		0.125	0.115	Small
MDS		0.194	0.026	Small

* Total Effect Size f²

Finally, this study measured the predictive relevance of the model to confirm the ability of the prediction relevance of the model. The predictive relevance was assessed using blindfolding procedure, to confirm the Q2 is greater than zero [55]. Thus, Table 5 below present the predictive relevance, which indicates the predictive relevance of the model were established, where the Q2 value achieves 0.094.

Table 5

<i>Total</i>	<i>SSO</i>	<i>SSE</i>	<i>1-SSE/SSO</i>
Cost leadership Strategy	831	752.965	0.094

* Predictive Relevance Q²

VI. DISCUSSION

The main objective of this study is to investigate the impact of market penetration strategy and market development strategy on the cost leadership strategy of manufacturing based SMEs. The study underlined two objectives or hypotheses H1. Market penetration strategy is related to cost leadership strategy. Moreover, H2: Market development strategy is related to cost leadership strategy.

As the results indicated the H1 found a significant positive influence of market penetration strategy on the cost leadership strategy, the finding is line with [57, 46]. Thus H1 is supported. Also, the result of this study is supported by dynamic capabilities perspective, which argued that for an organization to sustain competitive advantage, management must reconfigure and integrate its strategies resources to build competency and enhance competitiveness [2, 22].

Similarly, H2 market development strategy was found to have a significant positive effect on the cost leadership advantage of manufacturing based SME in Nigeria. The finding of this study is reliable with the previous studies [57, 46]. Hence, H2 is supported. Moreover, the finding confirmed the assertion of DCV theory suggesting firms in a highly competitive environment should align their firm's strategies, in order to enable them to compete effectively [2, 22].

Therefore, the study highlights the importance of manufacturing based SMEs to possess MPS and MDS, as the firm performance can be achieved. In the context of Nigeria, the manufacturing based SMEs need to have MPS and MDS to identify more opportunities to improve their business growth and achieve greater performance.

(A) Conclusions

The study examined the impact of product market strategy on competitive strategy. Specifically, the research shows the importance of market penetration strategy, market development strategy on cost leadership advantage for manufacturing based SMEs. Presently, manufacturing based SMEs needs to competitive strategy to enhance their competitiveness, market share and competitive advantage [28, 44, 33]. The findings confirm the assumptions that the product market strategies influence cost leadership strategy [46, 57].

Particularly, market penetration strategy needs to be constantly developed, through investment in resources, because MPS is a continuing process. The firm should give more emphasis on marketing activities, to gain their competitive advantage over its competitors. However, market development strategy may exist when firm's brand and the market have been accepted and reach a certain level. As a result of market opportunities and competition, MDS enable firms to sustain its competitiveness and increase market share effectively, MDS needs to be linked firm strategic goal the practical implication of this study is owner-manager need to be innovative. This suggests that MDS is essential for manufacturing based SMEs, which provides them with the opportunity to segment and expand its current product in the existing market, as well as the expansion of its market segmentation.

Therefore, the findings of this study will be useful to owners-managers of manufacturing based firms and the government agencies. Also, the framework will serve as a blue print for organizations of all level to enhance competitiveness and achieve cost leadership advantage. Finally, the present study contributed the literature related to growth level strategy and competitive strategy and the theory dynamic capability view.

(B) Recommendations

The present study investigated the impact of market penetration strategy and market development strategy on the cost leadership strategy. Even though, the objectives of the study were achieved. The findings cannot be generalized, as the limited to manufacturing based SMEs in the Northwest region of Nigeria. The study was confined to cross sectional, which indicates that data was gathered at one specific time from the owner-managers of SMEs in the Northwest of Nigeria. The independent variables used in this study were limited to only two. Finally, the study focused on a single competitive strategy as a dependent variable. Therefore, future studies are recommended on the issues highlighted to improve our understanding.

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