Exploration of the Difficulties in Formulating and Implementing Differentiated Marketing Strategies for Small and Medium-sized Enterprises (SMEs)

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Abstract. In an increasingly competitive market environment, a differentiated marketing strategy has become a crucial path for Small and Medium-sized Enterprises (SMEs) to gain a competitive advantage and achieve sustainable development. Due to constraints in resources, talent, and brand influence, SMEs face numerous challenges and difficulties in formulating and implementing their differentiation strategies. This paper first elaborates on the necessity and theoretical foundations for SMEs to pursue differentiation. It then deeply analyzes key issues encountered during the strategy formulation phase, such as inaccurate market positioning, difficulty in selecting differentiation points, and resource constraints. Subsequently, it explores critical difficulties faced during the strategy implementation phase, including insufficient execution capability, poor innovation sustainability, organizational coordination challenges, and weak risk control. Finally, the paper proposes a series of countermeasures and suggestions, including strengthening core competencies, focusing on technological and model innovation, building a flexible organizational structure, and leveraging digital technology to enhance efficiency. The aim is to provide theoretical reference and practical guidance for SMEs to more effectively formulate and implement differentiated marketing strategies, helping them stand out in niche markets.

Keywords: SMEs; Differentiated Strategy; Marketing; Strategy Formulation; Strategy Implementation; Difficulty Analysis; Competitive Advantage.

1. Introduction

1.1 Research Background: The Position of SMEs in the National Economy and the Competitive Environment They Face

Small and Medium-sized Enterprises (SMEs) are vital forces in driving national economic growth, fostering employment, and stimulating market vitality. For example, in Europe, 99% of all companies fall into the small and medium-sized enterprise category, while 57% of private sector output is contributed by SMEs (European Commission, 2022). But in today's globalisation and informatisation, the market competition has become fiercer, and large companies continue to intrude into the survival area of small and medium enterprises through economies of scale and monopoly of resources. According to McKinsey (2021), 70% of SMEs struggle to compete against bigger players because of their size[1]. Traditional price wars or blindly imitating others is no longer sustainable for SMEs in the long run. They have a strong desire to discover a low cost, high efficiency competition. Differentiation strategy pops out exactly at this point, it provides SMEs short on resources a distinctive passageway to break through and build hard-to-mimic competitive advantages in particular areas of the market.

1.2 Connotation and Value of Differentiated Marketing Strategy

Differentiated Marketing means that a company offers either product/service, image or a combination of marketing mix such that it is viewed as distinctive from its competitors and can secure a different value leading to profits in excess of an average in the Industry [2]. For SMEs it's not simply just being "different" it's being "differently valuable," it helps SME's avoid competing directly against Goliaths and allowing them to dominate specific niches and building loyalty from customers and increase their bargaining power and in turn build a formidable competitive moat.

1.3 Research Objectives and Significance

The aim of this study is to conduct a thorough examination of the common problems and difficult situations encountered by SMEs in the process of formulating and implementing their differentiated marketing strategies, so as to give a full understanding of these problems. The paper will systematically analyze the reasons behind these troubles, thus offering some specific yet achievable countermeasures, so as to lead small- and medium-sized enterprises (SMEs) to adopt differentiation techniques in a more scientific and efficient way, thereby strengthening their competitive edge on the market and their ability to develop sustainably[3]. In the end, it is hoped that the research will add value to both the strategic management practices of SMEs as well as the relevant academic research.

2. Theoretical Foundation and Necessity of Differentiated Strategy for SMEs

2.1 Theoretical Foundation: Porter's Generic Strategies and Resource-Based View (RBV)

The differentiation strategy is one of the three generic competitive strategies that Michael Porter identified, and it stresses that a company must create something that is unique all over the industry to be able to demand a higher price for it. RBV perspectives show that SMEs need a difference with the basis of own valuable, rare, inimitable, and non-substitutable resources and capability, and the most important part is their own intangible resources such as innovation ability, organization culture and some special service forms. SMEs though may not own up to scale resources, but they might have more flexibility, quicker market response speed and deeper insight into certain customer groups. These special abilities are building blocks to create a differntiating advantage.

2.2 Necessity: Avoiding Price Wars, Building Brand, and Gaining Niche Market Advantage

It is very necessary for SMEs to adopt a differentiated strategy. First, it can effectively avoid a price war with big enterprises, changing the competitive field from only price to value and experience. Second, through unique differentiation points, SMEs can gradually establish a distinct brand image, strengthening consumers' perception and emotional connection with the brand, thereby boosting customer loyalty and repeat purchases[4]. The most important fact is: by using a differential strategy, SMEs correctly record and use the benefits of small market niches, so they can obtain leading positions for market segments ignored or overlooked by giants, thus achieving the strategic goal of "facing large with small."

3. Analysis of Difficulties in the Strategy Formulation Phase

3.1 Difficulty One: Inaccurate Market Segmentation and Positioning

SMEs face a lack of professional market research skills and insufficient data for market segmentation. According to a GEM report, 35% of SMEs do not perform systematic market research when they produce new products or services. results in weak understanding of the real target customers' desires, likes, and true prices, not worth pursuing as it is hard to find unfulfilled demand. Manager's intuition or narrow experience becomes basis for crude positioning, they get caught by "one size fits all" - this direction lacks distinctiveness and does not truly address customer's pain points. Such inaccurate positioning directly leads to the misallocation of all subsequent marketing resources, rendering differentiation efforts ineffective.

Table 1. SME Market Research Practices and Outcomes.

Research Activity	Percentage of SMEs Engaging	Common Outcome
Systematic Market Research	35%	Higher positioning accuracy
Intuition/Experience-Based	65%	High risk of mispositioning
Data-Driven Decision Making	<20%	More sustainable differentiation

3.2 Difficulty Two: Challenges in Selecting and Shaping Effective Differentiation Points

Effective differentiation points must be important, distinctive, communicable, and sustainable. But, small and mid-sized businesses cannot compete with large corporates for high tech content or brand visibility, so SME differentiation is usually around service or experience or small product tweaks. These differences can be easily imitated by competitors too, small and medium enterprise don't make good, powerful long-term competitive barriers [5]. And there is also quite a lot of difficulty for SMEs to control differentiation costs. If the cost of the differentiation strategy is too great and cannot be offset by the product price being raised, it would squeeze the company's profit margin and would result in the company going bankrupt. We can model the Differentiation Value-Cost Balance as:

$$V_d = (P_d - C_d) - (\mathrm{P_g} - \mathrm{P_g})$$

Where: V_d= Net value of differentiation
P_d= Price of differentiated product
C_d= Cost of differentiated product
$\mathrm{P_g}$= Price of generic product
$\mathrm{P_g}$= Cost of generic product
For differentiation to be sustainable, V_d>0.

3.3 Difficulty Three: Mismatch Between Strategy and Enterprise Resource Endowment

When planning a differentiation strategy, the company needs to have sufficient funding, technology, talent and management capabilities as well. But SMEs tend to forget about their own resources when making strategic decisions and set very high, yet unrealistic, differentiation goals[6]. For example, if a company has the goal to differentiate itself through a high tech product, it could end up without the proper R and D investment, with top talent, etc. A low-cost differentiation firm could end up without the proper service differentiation management systems, without properly trained high-quality staff. This huge gap between what we want and how many resources we have is the most fatal problem for SMEs when they make their strategies.

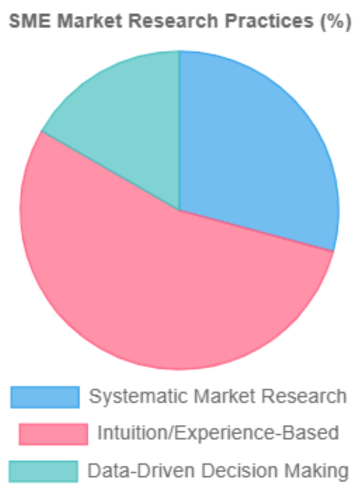

Figure 1. SME Market Research Practices & Outcomes.

4. Analysis of Difficulties in the Strategy Implementation Phase

4.1 Difficulty One: Insufficient Organizational Execution and Internal Collaboration

Whether a strategy works in the end really depends on execution ability. SMEs will also have problems with loose organizational construction, not sound management system, employee lack of full understanding of grasp or buying into the new strategy. The new strategy will be diluted by all sorts of operational levels, and it cannot become a unified action towards the market. Generally a differentiation strategy requires high degree cross-departmental collaboration, such as R&D, production, sales, services, etc. need to collaborate[7]. However, the communication mechanism and process of SMEs is very poor, there are conflicts of interest and information silos between departments, which seriously hinders the smooth delivery of differentiated value.

4.2 Difficulty Two: Issues with Differentiation Innovation and Sustainability

The differentiation advantage isn't everlasting, the firm should have the ability for constant renewal to keep and develop this advantage. but however due to the limited finance and lack of specialized R&D institutions and culture, SMEs innovation efforts can be sporadic, reactive and unable to absorb failure. According to the OECD, SMEs make up only about 30% of all business R&D expenditure in developed countries, even though they comprise the vast majority of businesses. If the competitive environment were to change or if a competitor was to present a new product that is more appealing, which results in our SME not being able to follow up with further rounds of innovation in time, the unique differences the SME originally had would dwindle away quickly and eventually become out-of-date putting the firm back into homogeneous competition.

Table 2. R&D Expenditure Share: SMEs vs. Large Enterprises (%).

Country/Region	SME R&D Share	Large Enterprise R&D Share
EU Average	30%	70%
USA	28%	72%
Japan	32%	68%
China	25%	75%

Source: OECD (2022), Science, Technology and Industry Scoreboard

4.3 Difficulty Three: Constraints on Marketing Channels and Communication

A differentiation strategy relies on the establishment of proper channels and activities of communication so as to convey the message accurately and effectively to its target customers. But SMEs have low brand awareness and no large-scale advertising expenses, so they cannot compete with big enterprises on the mainstream media. Traditional channels are expensive and using digital marketing to achieve precise communication is hindered by both talent shortages and lack of technology investment That's hard for SMEs to improve brand exposure and credibility when doing it, even good the different product or service is, it's not easy to be widely accepted by customers.

4.4 Difficulty Four: Lagging Strategy Evaluation and Dynamic Adjustment

An effective strategy call for a scientific evaluation system, so as to assess in time the execution effect and dynamically adjust it. In the process of employing a differentiation strategy, small and medium enterprises often do not have professional data analysis tools and staff, thus they cannot gather and analyze market data feedback information accurately and in time. It makes people's strategy evaluation late or biased[8]. If at any point a difficulty or problem arises in the directions of differentiation, or during execution, it is hard to implement quick and flexible changes due to the rigidity in the SME's management system, and as such the correct and ideal window for modification and correction is missed. We can define the Strategy Adjustment Lag (L) as:

$$L = T_d - T_a$$

Where:
T_d= Time when deviation is detected
T_a= Time when adjustment is actually implemented
A large positive L indicates poor strategic agility.

5. Countermeasures for SMEs Implementing Differentiated Strategy

5.1 Strengthening Core Competencies: Focusing on Niche Markets and Building Unique Value Chains

SMEs should give up the idea of a complete market offensive, using limited resources to attack a few niche markets, thoroughly exploring neglected areas to create a unique, irreplaceable speciality. in order to develop stronger core competencies, the firm needs to create a unique and effective value chain based on its own resources [9]. It may also be to master a single production step, create an absolutely unique reputation for a certain service area, form irreplaceable technological, knowledge or customer relationships that competitors cannot quickly duplicate.

5.2 Implementing Customer-Centric Innovation: Focusing on Integrated Innovation of Products, Services, and Experiences

Innovation is the lifeblood of differentiation. SMEs needto perceive innovation asacontinuousand all-round affair,rather than simply a producttechnology breakpoint. To be prompted by the customer, its wants and pain points, if integrated innovation is implemented on a wide range, covering different areas like products functions, service forms, consumption experience, or business modes. Creating a fast response mechanism, constantly refining the product/service, expanding the advantage of difference from a single dimension to multiple dimensions, making it impossible for customers to take all of them, thus forming a set of customer value delivery system.

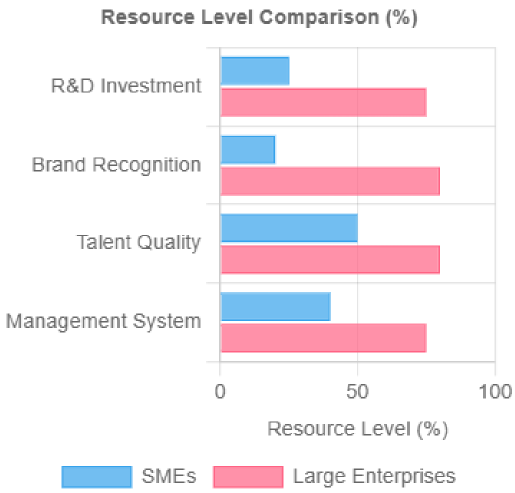

Figure 2. Resource Gap: SMEs vs. Large Enterprises

5.3 Building a Flexible Organizational Structure: Enhancing Strategic Response Speed and Execution

To meet the requirements of flexibility and execution for a differentiation strategy, SMEs should try to build a flat, flexible organizational structure. The reduction of management levels and the clarification of cross-department collaborative processing is needed to dismantle inter-departmental barriers, which guarantees that the information flows fast and the decision can be implemented quickly. Also it is important to create culture in the company which supports innovation but also allow to be wrong supported by proper incentive structures so everybody in the firm know what differentiation strategy really means and act on it by participating in creation and delivery of value.

5.4 Utilizing Digital Technology: Achieving Personalized Marketing and Customer Management at Low Cost and High Efficiency

In the era of the internet, SME should make full use of cloud, big data and social media to achieve differentiation with high efficiency and low cost. For example, according to a study by Deloitte (2023), it was found that companies using data-driven marketing techniques achieved an increase of 15 - 20 % in customer retention rates [10]. Use data analysis tools to find target customers, carry out personalized and customized marketing communication with target customers, without wasted resource. On the one hand, by grasping customer opinions and feedback through digital technology, it can establish an effective CRM system that provides real-time service responses, which greatly improves the service response speed and quality, transforming the company's differentiated service into a high level of customer loyalty and word-of-mouth.

Table 3. Impact of Digital Tool Adoption on SME Marketing Performance.

Digital Tool Type	Adoption Rate among SMEs	Reported Performance Improvement
CRM Systems	45%	15-20% increase in retention
Social Media Analytics	38%	10-15% improvement in targeting
Email Automation	50%	12-18% boost in conversion
SEO/SEM Tools	30%	20-25% increase in visibility

Source: Deloitte (2023), Digital Transformation in SMEs Survey

5.5 Establishing Risk Warning and Dynamic Adjustment Mechanisms

Strategy Implementation is not fixed, SMEs need to set up agile strategy monitoring and feedback mechanism By setting KPI’s, this will allow the company to see if the differences are working and cost savings, and what type of reaction in the market is seen. Once there is a large-scale change in market conditions, or once another enterprise learns to imitate the enterprise’s differentiated advantage, the enterprise should be willing and able to make rapid dynamic readjustment in terms of the strategic mix, such as product feature modification, pricing strategy adjustment, channel combination change, even to the extent of changing the target market, ensuring the continuity of the enterprise’s differentiation advantage.

6. Conclusion and Outlook

6.1 Summary of Main Research Conclusions

In this paper, it is fully explored the major difficulties which exist to the SMEs in formulating and implementing their differentiated marketing strategies. When formulating a strategy, getting the position right, picking effective difference points, and lacking resources these three factors are main obstacles. Strategy execution phase, organizational execution is insufficient, innovation is not sustainable, and communication methods are narrow are the main problems. To solve these problems, SMEs need to solidify their core strengths, engage in comprehensive innovation, form flexible organizations, cleverly employ digital technologies, and create adaptive mechanisms that involve several different areas, so as to make efficient use of all resources and build and preserve a unique competitive advantage in niche markets.

6.2 Research Limitations and Future Research Directions

The research is mainly carried out through theoretical discussion and practical observation, so there may be some limitations when it comes to the amount of data and cases. Future research may also focus on three other directions: First study on quantization, to quantify the impact of different difficulty levels on the strategic performance of small and medium-sized companies by using large sample or deep investigation on the company, secondly explore how digital technological development systematically reshape SME's differentiated value chain and business model, third to discover how small and medium sized enterprises can use cross organization like university, research institutes or association etc. to fully carry and keep up the differentiation strategy.

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