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# European traditional food producers and marketing capabilities: An application of the marketing management process

**A. Banterle, A. Cavaliere, S. Stranieri<sup>1</sup>, L. Carraresi**

*Department of Agricultural, Food and Environmental Economics Università degli Studi di Milano*

**Abstract:** The purpose of this paper is to evaluate the marketing management capabilities of SMEs producing traditional food products, in order to analyse the market orientation of SMEs in the food industry. Following the theoretical approach of Market Orientation, our analysis is based on an assessment of the marketing management process. The methodology refers to a survey developed through a questionnaire published on the web, and a sample of 371 firms based in Belgium, Italy, Spain, the Czech Republic and Hungary was used in the analysis. Cluster analysis was applied to find the different levels of market orientation of the firms. The results revealed a certain lack of appropriate skills in marketing management in the firms of the sample, confirming the evidence found in economic literature concerning SMEs. Nevertheless, cluster analysis outlined a group of firms with good marketing capabilities and market oriented, and these represent a great part of the sample (40%). With regard to the stages of the marketing management process, the most problematic are those of planning and implementation, and control and evaluation, highlighting the difficulties SMEs encounter in carrying out coordinated marketing; which appears to be generally characterised by poor organisational capacity.

**Key words:** marketing management capabilities, SMEs, traditional products, food sector

## 1. Introduction

Small and medium sized enterprises (SMEs) constitute the majority of firms in the EU food industry, and the sector of traditional food products (TFPs) especially is composed mainly by SMEs (O'Reilly and Haines, 2004; Spillan and Parnell, 2006). Over the past ten years competition among firms has increased due to globalization, and the EU food market has become less protected, which makes it very difficult for SMEs to adapt their strategies to market changes and to survive alongside large firms (Knight, 2000; Banterle et al., 2008).

Nevertheless, consumer preferences are evolving continuously, revealing an increasing interest in food quality, thus providing good opportunities for firms to reshape their strategies to meet consumer preferences (Traill, 1998; Jaworski and Kohli, 1993). In this context, TFPs could play a significant role in the market because they are increasingly requested by consumers, who associate them with quality and a return to tradition (Jordana, 2000; Banterle and Carraresi, 2007; O'Reilly and Haines, 2004).

For this reason SMEs characterised by flexibility and agility (Heathfield, 1997) could shift the orientation of their

strategies from the product to the marketplace, in order to profit from new opportunities arisen in the market. Indeed, several studies in the literature show a relationship between the market orientation of firms and business performance (Narver and Slater, 1990; Jaworski and Kohli, 1993; Kara, et al., 2005).

However SMEs often lack appropriate tools to face increased market competition, especially in marketing activities, making it more difficult for SMEs to apply a market oriented strategy. Nonetheless, there is also evidence of successful cases of SMEs applying a market oriented strategy (Kara et al., 2005).

Being market oriented means that SMEs have to improve their marketing capabilities; indeed, within the firms, the marketing area is the one closest to the marketplace, therefore information concerning competitors and consumers needs to be disseminated to the other areas of the firm starting from marketing (Kohli and Jaworski, 1990; Shapiro, 1988; Kara et al., 2005).

The purpose of this paper is to evaluate the marketing management capabilities (MMC) of SMEs producing TFPs, in order to analyse SME market orientation within the food industry.

<sup>1</sup>Corresponding author, stefanella.stranieri@unimi.it, tel +39 0250316460, fax +39 0250316486

In our analysis we consider TFPs with the following characteristics: the key steps of the production must be national, regional or local; they must have an authentic recipe and/or an authentic origin of raw material and/or an authentic production process; they have to have been commercially available to the public for at least 50 years, and they must have a gastronomic heritage.

The methodology refers to a survey, carried out with a questionnaire published on the web, aimed at evaluating MMC. A sample of 371 firms, based in Belgium, Italy, Spain, the Czech Republic and Hungary was used in the analysis. These countries were chosen as they are involved in a survey being carried out within the framework of the European research project *Truefood*<sup>2</sup>.

The paper is organised as follows: the theoretical framework is presented in the next section; the methodology is described in the third section; the results are analysed in the fourth section, and concluding remarks are presented in the fifth section.

## 2. Economic issues

Marketing management capabilities derive from a well-performed marketing management process, which consists of analysing market opportunities, formulating clear marketing objectives, and developing a marketing strategy that should be implemented and controlled (Kotler, 2004). Therefore, any evaluation of the marketing capabilities of firms means carrying out an analysis of whether or not such firms apply appropriate marketing management processes.

The marketing management process consists of four stages (Kotler, 2004; Bagozzi, 1998; Padberg et al., 1997): *market research, marketing strategy, planning and implementation, control and evaluation*.

The objective of *market research* is to collect information to analyse the competitive environment within which the firm operates. Only in this way will it be possible to understand market opportunities and the behaviour of the people dealing with the firm, such as suppliers, buyers, competitors and final consumers.

*Marketing strategy* aims at formulating objectives and organizing activities in line with the opportunities opened up in the market. By applying a marketing strategy the firm is able to shape product business so as to obtain profits (Kotler, 2004; Kohli and Jaworski, 1990). Indeed, the firm has to adapt its products to various kinds of consumers as consumers do not all act the same way and have different tastes. Thus, firms must apply segmentation and targeting (Bagozzi, 1998; Porter, 1985).

*Planning and implementation* are key points in marketing

management, and the objectives of the marketing strategy can only be achieved through the formulation of an appropriate marketing plan. This plan should be adapted to market conditions and in line with the budget allocated for marketing activities (Kotler, 2004). In order to be successful, the marketing plan must be in good coordination with the activities of the firm and consistent with its overall strategy, and must be implemented constantly to guarantee efficiency over time.

*Control and evaluation* is connected to the checking of the results achieved with marketing activities. The main objective of this stage is to verify that the sale and profit goals of the firm have been reached (Kotler, 2004). A periodical examination needs to be made of the planned activities and, if needed, the firm should be ready to take corrective action. If profitability does not reach a satisfactory level the firm must re-plan the activities to achieve the desired results.

Finally, besides the four stages of the marketing management process, our analysis also included *innovativeness* as an indicator of marketing capability. Indeed, new products, new markets and new distribution channels represent important elements to satisfy changing consumer needs, and to face increasing market competition (Knight, 2000).

A well-performed marketing management process allows firms to be market focussed. Indeed, this focus on the market is the main object of the Market Orientation approach (MARKOR), which argues that a firm can obtain good profitability through *customer focus* and *coordinated marketing* (Kohli and Jaworski, 1990; Spillan and Parnell, 2006; Kara et al., 2005).

Within the theoretical framework of the MARKOR approach, *customer focus* allows firms to gear their products to consumer preference, and this plays an important role in the actual globalised market where consumers find the satisfaction of their needs in a wide variety of products (Jaworski and Kohli, 1993; Kohli and Jaworski, 1990; Narver and Slater, 1990). Thus, the marketing area of a firm must take into consideration not only information concerning the targets of consumers addressed by the firm, but also the features of the entire market, including customers, suppliers, competitors, and final users. Therefore, customer focus concerns the carrying out of *market research* and the formulation of the objectives of the *marketing strategy*, in line with the information taken from the market.

The concept of *coordinated marketing* is related to the dissemination of information from the marketing area towards all areas of the firm, in order to let them participate and collaborate with each other for the achievement of the common objective of the firm (Shapiro, 1988; Kohli and

2 TRUEFOOD – “Traditional United Europe Food” is an Integrated Project financed by the European Commission under the 6<sup>th</sup> Framework Programme for RTD (Contract n. FOOD-CT-2006-016264).

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Jaworski, 1990; Narver and Slater, 1990). The stages of marketing management connected to coordinated marketing are *planning and implementation*, and *control and evaluation*. The consequence of customer focus and having coordinated marketing is *profitability* (Kohli and Jaworski, 1990).

Therefore, by assessing the marketing management process we can achieve an outline of the extent to which firms are market oriented, even though in our analysis profitability is not considered.

### 3. Methodology

A survey was carried out through an interactive on-line questionnaire<sup>3</sup> to evaluate the MMC of SMEs producing TFPs. The questionnaire was structured in five sections, reflecting the stages of the marketing management process, plus one concerning the general data of the firms (for the specific questions see *table 4*).

The firms' general data are related to company name, address, country, legal status, employees, turnover, membership of a consortium, voluntary quality certification, main distribution channels, and major selling markets. The first section of the questionnaire investigates the firms' *market research* with questions exploring whether or not firms take information about the market in which they operate. The second section, dealing with *marketing strategy*, investigates the firms' objectives and the strategic choices regarding the product business. The third section is dedicated to the *planning and implementation* of the marketing activities within the firm. The fourth section concerns the *control and evaluation* of the results of marketing activities. The fifth section is addressed to the level of *innovativeness*.

Except for the part of the questionnaire concerning the general data of the firms, the other sections oblige the firms to answer with a Likert-scale from 1 to 5, reflecting, respectively, the worst capability and the best one. The questionnaire is a self-evaluation tool for the marketing managers of the analysed firms. Although this method is affected by a subjective view, the results outline the firms' perception of their MMC levels. The sample consists of 371 firms producing TFPs, and belonging to the following countries: Hungary (7%), Italy (34.5%), Czech Republic (23.7%), Spain (19.7), and Belgium (15.1).

The values of the variables connected to marketing capability, expressed by the interviewed firms, were subjected to cluster analysis.

However, due to missing values 56 firms were excluded, leaving 315 firms to be considered. For the cluster analysis we utilized a hierarchical approach. Similarity between cases was measured by the Chebychev distance, and the 'average linkage within groups' method was used to combine nearest clusters into broader groups. This technique led to the identification of 4 clusters that seemed the best results in terms of some important criteria, such as the minimum number of firms for each cluster, the degree of inter-cluster distances, and the different characteristics of the resulting clusters.

### 4. Results

#### 4.1 Descriptive analysis

The sample is composed mainly by SMEs that represent 88% of the firms analysed, instead 11% are large enterprises, and 1% of the firms did not answer the question regarding employment (*Tab. 1*). Among the SMEs 30.5% are micro-sized firms, 31.5% are small, and 26% are medium. The micro-sized firms constitute a relevant part of the sample in Hungary (53.8%), Belgium (50%), and Italy (41.4%). In Italy and Belgium also the small firms are well represented, respectively 37.5% and 28.6%, together with the Czech Republic (30.7%) and Spain (30.1%). Medium-sized firms predominated in the Czech Republic (42%) and Spain (35.6%), whereas the percentage of large firms was small in all the countries except Spain, where 30% of the firms had more than 250 employees.

With regard to the main distribution channels chosen by the firms, supermarkets predominated in the sample, though the percentage of firms making main use of this distribution channel was not so high (37%); supermarkets are followed by direct sale (16.4%), wholesalers (14.6%), and specialised shops (12%) (*Tab. 2*). The importance of supermarkets is

**Table 1:** Size of the firms of the sample

	Belgium	Czech Rep.	Hungary	Italy	Spain	Total	Belgium	Czech Rep.	Hungary	Italy	Spain	Total
<b>Employees</b>												
< 10 empl.	28	15	14	53	3	113	50.0	17.0	53.8	41.4	4.1	30.5
10-50 empl.	16	27	4	48	22	117	28.6	30.7	15.4	37.5	30.1	31.5
50-250 empl.	9	37	5	19	26	96	16.1	42.0	19.2	14.8	35.6	25.9
> 250 empl.	2	8	2	6	22	40	3.6	9.1	7.7	4.7	30.1	10.8
n.d.	1	1	1	2	0	5	1.8	1.1	3.8	1.6	0.0	1.3
Total	56	88	26	128	73	371	100.0	100.0	100.0	100.0	100.0	100.0
<b>Turnover</b>												
< 2 M	10	7	1	45	2	65	17.9	8.0	3.8	35.2	2.7	17.5
2-10 M	12	11	3	29	16	71	21.4	12.5	11.5	22.7	21.9	19.1
10-50 M	7	13	1	17	22	60	12.5	14.8	3.8	13.3	30.1	16.2
50-100 M	2	9	0	3	13	27	3.6	10.2	0.0	2.3	17.8	7.3
>100 M	4	37	0	7	14	62	7.1	42.0	0.0	5.5	19.2	16.7
n.d.	21	11	21	27	6	86	37.5	12.5	80.8	21.1	8.2	23.2
Total	56	88	26	128	73	371	100.0	100.0	100.0	100.0	100.0	100.0

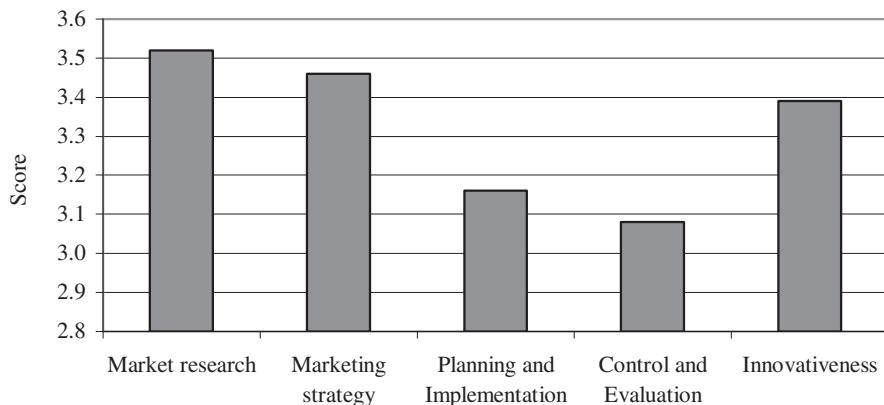
Source: own calculations

<sup>3</sup> www.truefood.eu and http://users.unimi.it/truefood

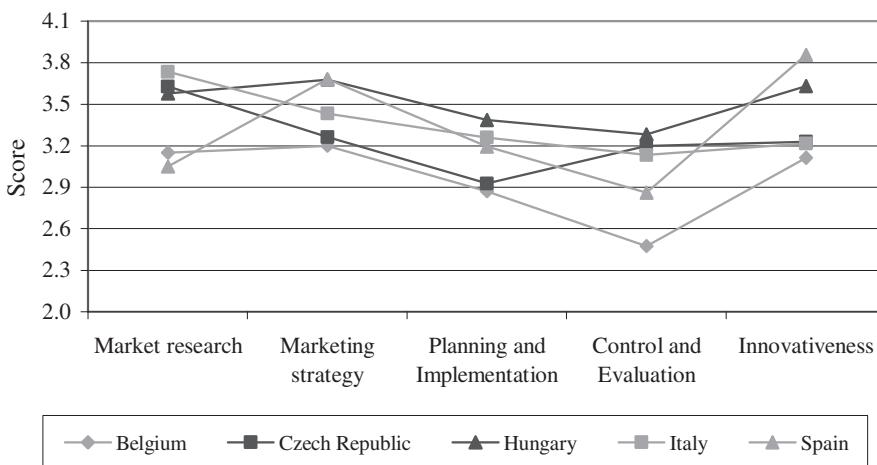
**Table 2:** Distribution channels and geographical market of the firms of the sample

	Belgium	Czech Rep.	Hungary	Italy	Spain	Total	Belgium	Czech Rep.	Hungary	Italy	Spain	Total	n		%	
													%			
<b>Distribution channels</b>																
supermarkets	14	23	5	46	49	137	25.0	26.1	19.2	35.9	67.1	36.9				
specialised shops	7	13	4	18	3	45	12.5	14.8	15.4	14.1	4.1	12.1				
direct sale	13	17	9	19	3	61	23.2	19.3	34.6	14.8	4.1	16.4				
wholesalers	7	9	6	25	7	54	12.5	10.2	23.1	19.5	9.6	14.6				
others	2	16	0	5	0	23	3.6	18.2	0.0	3.9	0.0	6.2				
small grocery shops	6	7	1	13	10	37	10.7	8.0	3.8	10.2	13.7	10.0				
n.d.	7	3	1	2	1	14	12.5	3.4	3.8	1.6	1.4	3.8				
Total	56	88	26	128	73	371	100.0	100.0	100.0	100.0	100.0	100.0				
<b>Sale markets</b>																
local	13	15	13	14	0	55	23.2	17.0	50.0	10.9	0.0	14.8				
regional	7	23	3	21	8	62	12.5	26.1	11.5	16.4	11.0	16.7				
national	16	34	8	69	50	177	28.6	38.6	30.8	53.9	68.5	47.7				
international	14	5	1	23	14	57	25.0	5.7	3.8	18.0	19.2	15.4				
n.d.	6	11	1	1	1	20	10.7	12.5	3.8	0.8	1.4	5.4				
Total	56	88	26	128	73	371	100.0	100.0	100.0	100.0	100.0	100.0				

Source: own calculations

**Figure 1:** Marketing management capabilities of the sample firms

Source: own calculations

**Figure 2:** Marketing management capabilities per country

Source: own calculations

revealed in all the countries analysed, especially in Spain (67%), the only exception was Hungary where direct sales constituted the most frequently used channel (34.6%). The majority of the firms in the sample sell their products on the national market (47.7%), whereas only 15.4% operate in the international market. The rest of the considered firms place their products at local (14.8%) and regional (16.7%) levels. Note that the local market is quite relevant for Hungarian firms (50%).

Considering MMC, the general results of the analysed firms highlight the lack of appropriate tools in marketing management, confirming the literature findings concerning SMEs. Indeed, the average results in the different areas of marketing management range between 3.1 and 3.5<sup>4</sup>, which, on our scale, reveal not such good performance, demonstrating the weak market orientation of traditional food producers (Fig. 1). The most problematic stages of marketing management are seen in *planning and implementation*, and *control and evaluation*. Indeed the major bottlenecks are connected to the formulation of the marketing plan and the control of the results achieved, showing weakness in the internal organisational activities of the firms, namely their coordinated marketing. This is a typical problem connected with SMEs, which are characterised by poor organisational capacity.

On analysing MMC per country, the results show that the *marketing strategy* scores of the countries are similar (around 3.5), a strong point for the firms considered, whereas for *market research* we note that Italy, the Czech Republic and Hungary have good capability whereas Belgium and Spain are weak (Fig. 2). The weakest points are the stages of *planning and implementation*, and *control and evaluation*, as mentioned above, but in the former the scores are relatively similar while in the latter differences

<sup>4</sup>The average MMC of each stage of marketing management was calculated by summing the scores (ranging from 1 to 5) obtained in each section of the questionnaire and dividing this sum by the maximum score reachable by each firm.

among countries are observed. Moreover, the firms obtain quite good scores in innovativeness, especially the Spanish firms.

#### 4.2 Cluster analysis

The cluster analysis resulted in four significant different clusters (*Tab. 3*). A great part of the respondents, i.e. 40%, is grouped into the cluster *market oriented* (average score is 4.1) and shows good results in all five areas.

About the 27% of the respondents are grouped in the cluster *intermediate market oriented* (average score is 3.5). The members of this cluster achieved lower scores than the members of the first cluster, but they obtained results in all five areas in line with the average values of the sample.

The third cluster, that groups the so called *weakly market oriented* firms, represents 22% of the sample, and shows an average score of 3.1. In this case the respondents have a low market orientation, especially with regard to specific marketing areas.

Finally, the firms grouped in the fourth cluster are *not market oriented* and present the lowest scores in all five marketing areas (average score is 2.4). However, this cluster includes a minority of the sample because it groups only 37 firms (12%).

It must be pointed out that, on comparing the four clusters, some of the variables have similar scores while other marketing variables lead to quite different results. For example, the firms' capability of influencing price setting differs slightly from cluster to cluster. This is probably due to the size of the considered firms, most of which are micro- and small firms; therefore they can be only price takers.

On the other hand, variables referred to certain marketing areas such as *planning and implementation*, *control and evaluation*, and, partially, *marketing strategy*, presented high differences among the clusters. For this reason, the variation in marketing performance highlighted in the survey is mostly dependent on these areas.

#### Cluster 1 – Market oriented

The first cluster scored good results in all five areas, except for some weakness in points such as brand analysis, influence on price setting, adaptation of budget to market change, benchmarking with competitors, and innovative

**Table 3:** Cluster analysis

	Cluster			
	1) Market oriented	2) Intermediate market oriented	3) Weakly market oriented	4) Not market oriented
Size of cluster	N	126	84	68
<b>Market research</b>				
Brand analysis		3.86	2.95	2.34
Supplier analysis		4.25	3.92	3.26
Retailer analysis		4.26	3.96	3.28
Competitor analysis		3.91	3.08	2.96
Market analysis		4.04	3.65	3.41
Consumer analysis		4.21	3.77	3.71
<b>Marketing strategy</b>				
Existence of clear objectives		4.48	3.44	3.32
Strategy well-known inside firm		4.02	3.24	3.12
Product tailoring according the consumer needs		4.16	4.00	3.57
Product differentiation		4.25	3.98	3.56
Influence on price setting		3.63	3.62	3.62
Investment in dynamic and qualified sales forces		4.25	3.24	3.25
Choice of distribution channel		4.17	3.76	3.88
Investment in promotion and advertising		3.90	3.15	2.53
<b>Planning &amp; Implementation</b>				
Planning in advance		4.25	3.36	2.91
Adaptation of promotional activities to changes in market		4.13	3.37	2.76
Adaptation of budget to changes in market		3.83	3.31	2.51
<b>Control &amp; Evaluation</b>				
Evaluation of results		4.40	3.76	2.54
Cost analysis		4.29	3.69	2.50
Benchmarking with competitors		3.37	2.61	1.88
<b>Innovativeness</b>				
Investment in product improvements		4.40	4.00	3.76
Search for new markets		4.37	4.02	3.74
Innovative distribution channels		3.24	2.99	2.66
<b>Average total score</b>		4.07	3.52	3.09
				2.38

Source: own calculations

distribution channels. With regard to the last two aspects, the marketing activity of market oriented SMEs should improve with concentrating marketing efforts on an ex-post evaluation of such activities, and on the search for new ways to distribute food products in line with the quantity produced.

#### Cluster 2 – Intermediate market oriented

The firms grouped in this cluster show a lower level of marketing capability than those belonging to the first cluster, in spite of the fact that these firms achieved some good scores. In this cluster, the main points of SME weakness are brand analysis, competitor analysis, promotion and advertising investment, benchmarking with competitors, and innovative distribution channels. Compared to the first cluster, the low level of promotional activity in these firms could depend on the different selling markets.

### Cluster 3 – Weakly market oriented

In the third cluster brand analysis, promotion and advertising investment and the choice of the distribution channel are all problematic for SMEs. Moreover, the critical points for a good level of marketing capability are related to all the variables of the *planning and implementation*, and *control and evaluation* areas, which are clearly the weakest for the firms grouped in this cluster. The scores from these two areas are much lower than the scores of the other areas and the average score of this third cluster.

### Cluster 4 – Not market oriented

In the fourth cluster, the choice of the distribution channel and the benchmarking of marketing strategy are two of the weakest activities for SMEs. The area *planning and implementation* is not an exception in this cluster; all the variables belonging to this area show a lower average score than that of the cluster taken into consideration.

Summarizing, the weakest points of the analysed firms are brand analysis, the adaptation of the budget to changes in the market, the benchmarking of marketing strategy and the selling through innovative distribution channels. Moreover, as already shown in our descriptive analysis, it is clear from the present cluster analysis that the most problematic aspects are *planning and implementation*, and *control and evaluation*. This means that SMEs with a low level of marketing capability should develop a more intensive marketing activity organisation, both ex-ante and ex-post, and try to build up a system able to efficiently evaluate marketing activity targets and the results obtained by the firms.

## 5. Concluding remarks

The analysis revealed a certain lack of appropriate marketing management skills in the firms of the sample, confirming the evidence found in economic literature concerning SMEs and highlighting the weak market orientation of traditional food producers.

Nevertheless, cluster analysis outlined four clusters with significant different MMC and different levels of market orientation. The first cluster grouped *market oriented* firms that represent a great part of the sample (40%). Note that the firms of this cluster show the two main pillars of the MARKOR approach, *customer focus* and *coordinated marketing*, both well developed though the second one reveals some weaknesses.

With regard to the stages of the marketing management process, the most problematic ones are represented by *planning and implementation* and *control and evaluation*, highlighting the SME difficulties, generally characterised by poor organisational capacity, in carrying out coordinated marketing. On the other hand, the areas of *market research* and *marketing strategy* appear less problematic.

The weakest points of the analysed firms were brand analysis, adaptation of the budget to market change, benchmarking of marketing strategy and selling through innovative distribution channels. Moreover, the firms show

little capability in influencing price setting. This is probably due to the size of the considered firms, most of which are micro- and small firms and, therefore, only price takers, not price makers.

An interesting managerial implication derived from our analysis concerns SMEs with low marketing capability. Needless to say, the improvement of MMC requires effort on the part of the firms to develop a more intensive organisation of marketing activities, both ex-ante and ex-post, and to build up a system able to efficiently evaluate the targets of marketing activity and the results achieved by the firms. Indeed, improved MMC is a crucial point for SMEs.

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