Private equity for small firms: a conceptual model of adaptation versus standardisation strategy

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Abstract: Private equity and venture capital are a form of financing that many small businesses benefit from at different stages of their growth and development. Small firms face many challenges relating to the raising of finance. These problems can be largely due to the lack of information about the availabilty of finance. This information gap can be bridged by the suppliers of the financial products of such private equity providers through the formulation and execution of an efficient and effective marketing strategy. The strategy can be adaptive or standardised depending on whether the financing is provided directly by the private equity and venture capital firm. Or, it can also be provided through the advisers of the small firms such as accountants and financial consultants. This paper evaluates the different aspects of the marketing strategies of the private equity firms and builds a conceptual model that takes into consideration the different stages of growth and development of small firms. The adaptation versus standardisation approach is recommended depending on who is offering the financial service.

Keywords: private equity; venture capital; marketing strategies; standardisation versus adaptation; small firms.

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1 Introduction

Small-sized firms face many difficulties and market challenges that could impede their growth and development into a medium- or large-sized enterprise. The unique financial problem that overshadows the barriers hindering their survival and growth relates to the disadvantages in their relationship with the capital market. This mainly pertains to the existence of *credit rationing* (Stiglitz and Weiss, 1981) or a *finance gap* (Mason and Harrison, 2000; Binks and Ennew, 1994; 1996; 1998) in the provision of capital. The study of this problem has been popular for decades, where it is argued that the existence

of asymmetric information in its different forms contributes largely to the presence of credit rationing faced by small companies. From the demand side, many firms over the last years have sought to overcome the credit difficulties by seeking alternative forms of funding such as private equity (venture capital) financing. The application of this form of business finance has exhibited substantial development both domestically and globally. Private equity including venture capital financing is estimated to contribute around 11% in additional finance to SMEs in the UK (Bank of England Report, 2004). This form of financial options is popular in other countries such as the USA, Canada and Europe.

However, from the supply side, many private equity providers including venture capitalists have sought to globalise their operations as their domestic markets become saturated or in some cases when opportunities and characteristics that they normally seek in small firms are lacking. Private equity firms typically target high-growth firms in different sectors aiming for Internal Rate of Return (IRR) in excess of 30%.

One of the roles of the marketing strategies of private equity firms is to inform customers about the availability of their financial services. Thus, if those small firms that meet the required criteria for VC funding, for example, become aware, then the process can certainly lead to the mitigation of the asymmetric information and potentially alleviate the credit rationing problem. However, the question that arises is as follows: what can be an optimal strategy to disseminate the information and target the small firms? Should there be a strategy of standardisation or adaptation in marketing this financial service?

There is certainly a scarcity in the literature on the marketing strategies of private equity firms and their relationship with the small business sector both domestically and internationally. This paper will attempt to develop a conceptual model that accentuates the main parameters and variables that could be included in the approach of private equity companies in the development of their strategies. The model establishes the marketing link between the type of financial services they offer and their target market of innovative small-sized enterprises seeking funding with the objective of stock market floatation.

Following a brief review of previous related work on adaptation versus standardisation strategies, we introduce the financial services of private equity firms and their approach to targeting the market of growing small-sized enterprises. We evaluate their strategies by analysing whether they are standardised or adapted, and then present the model and examine the optimality characteristics. We conclude with a brief summary and suggestions for future research.

2 Previous literature

2.1 Global marketing

Within the field of international marketing, there has been a long standing debate over the amount or extent of standardisation or adaptation. Vrontis and Vignali (1999) state that the extent of standardisation or adaptation was discussed as early as 1961. During that time, Elinder (1961) initially considered the idea regarding worldwide advertising. This debate then expanded to consider promotion. Today, the debate encompasses the whole of the marketing mix and marketing strategies.

When a company decides to begin marketing products abroad, a fundamental strategic decision is whether to use a standardised marketing mix (product, price, place, promotion, people, physical evidence, process management) and a single marketing strategy in all countries. Another decision is whether to adjust the marketing mix and strategies to fit the unique dimensions of each local market. However, literature quoting practical evidence suggests that companies make contingency choices, which relate to key determinants in each circumstance.

Buzzel (1968) and Buzzel *et al.* (1995) state that in the past, dissimilarities among nations led multinational companies to view and design their marketing planning country-by-country, which is a local problem. However, in recent years, this situation is changing. The experiences of a growing number of multinational companies suggest that there are potential gains to be made by standardising the marketing mix elements and strategies.

Supporters of global standardisation say that we live in a globalised world in which nation-states are not the major determinants of marketing activities. They say that, in this globalised world, consumer tastes and cultures are homogenised and satisfied through the provision of standardised global products created by global corporations (Dicken, 1998). Levitt (1983) asserted that well-managed companies moved from an emphasis on customising items to offering globally standardised products that are advanced, functional, reliable and low in price. Multinational companies that concentrate on idiosyncratic consumer preferences (in Levitt's view) become befuddled and unable to see the 'forest' because of the 'trees'. Only global companies will achieve long-term success by concentrating on what everyone wants rather than worrying about the details of what everyone thinks they might like.

Papavassiliou and Stathakopoulos (1997) suggest that there are four main reasons that make this approach appealing. First, it allows that multinational company to sustain a consistent image and brand identity on a global basis. Second, it minimises confusion among buyers that travel. Third, it allows the multinational company to develop a single tactical approach. Fourth, it enables the company to take advantage of economies of scale in production and experience and learning curve effects.

On a tactical level, the use of global standardisation is of paramount importance; according to Levitt (1983); the globalisation of markets is at hand. He argues that the global corporation operates with resolute constancy – at low relative cost – treating the entire world as a single entity. He further mentions that the global corporation sells the same things in the same way everywhere. With these statements, the international adaptation corporation, which adjusts its products and practices in every market around the world at high relative costs, nears its end.

Keegan and Green (2000) state that standardised global marketing is analogous to mass marketing (undifferentiated target marketing) in a single country. Also, they mention that standardised global marketing involves the creation of the same marketing mix for a broad mass market of potential buyers.

Supporters of the international adaptation approach, who react directly to the sweeping polemic of the Levittian argument, oppose the simplification and conceptualisation of standardisation. Supporters of adaptation declare that the assumptions underlining global standardisation philosophy are contradicted by the facts. Standardisation is at best difficult and, at worst, impractical (Jain, 1989). Globalisation, according to Ruigrok and van Tulder (1995), seems to be as much an overstatement as it

is an ideology. Ruigrok and van Tulder support international adaptation. They believe that it is impossible to market effectively by using the same marketing mix methods and marketing strategies. In addition, Helming (1982) and Youovich (1982) challenge the basic assumption of the standardisation approach and suggest that assuming similar buying motives for consumers on an international basis may, at best, be simplistic and, at worst, dangerous.

Supporters of international adaptation argue that tailoring marketing mix elements is essential and vital in meeting the needs and wants of the target market. Marketing mix elements cannot be standardised as international marketers are subject to different macro-environmental factors, constraints and conflicts.

Lipman (1988) goes so far as to say that for many the global marketing theory itself is bankrupt and bunk. In fact, the concept that once sent many executives scrambling to reconfigure marketing strategies now has many feeling duped. Not only are cultural and other differences very much still with us, they say, but marketing products in the same way everywhere can scare off customers, alienate employees and 'blind side' a company to its customers' real needs.

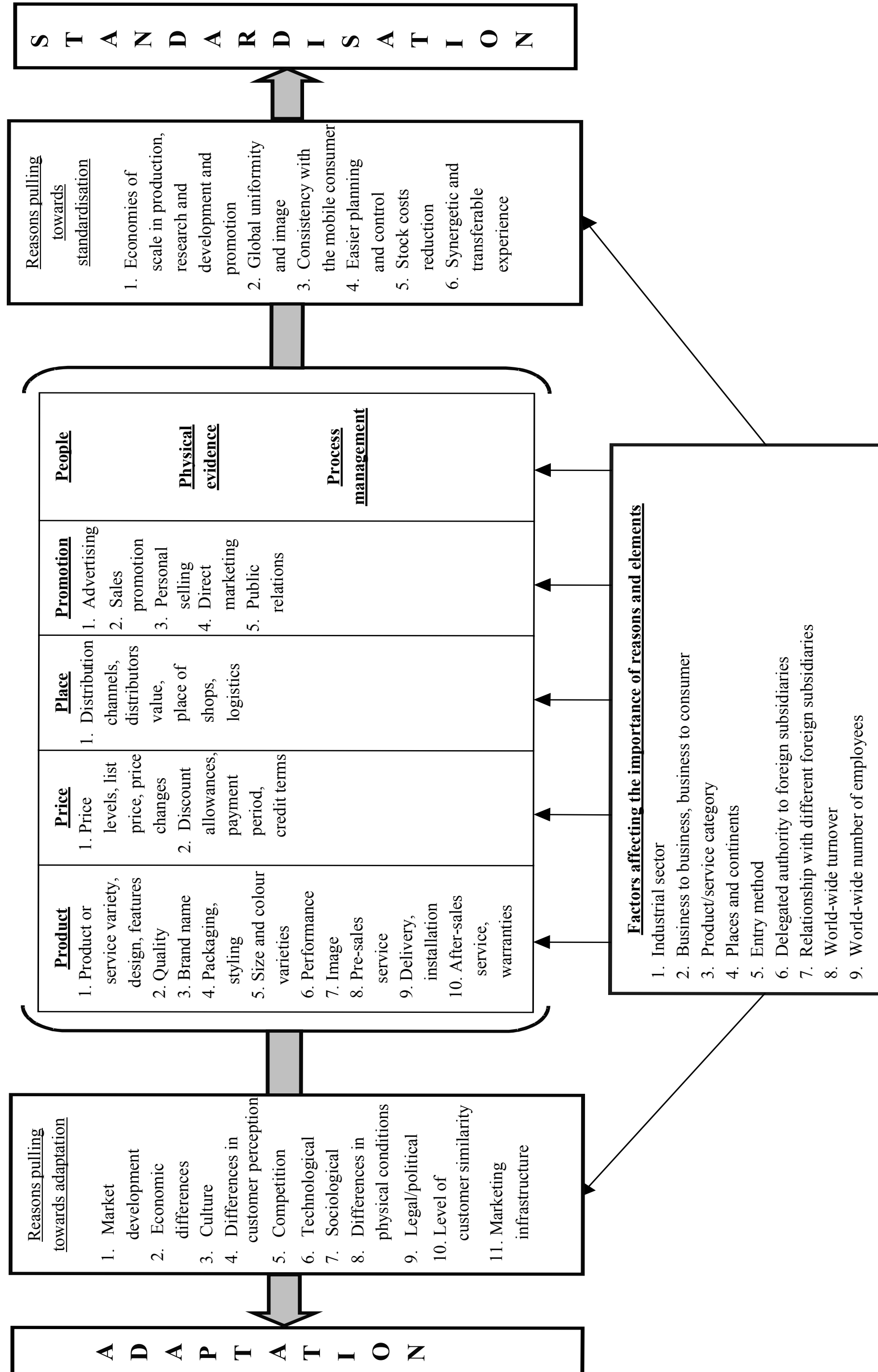
These schools of thought (adaptation and standardisation), which have been mentioned, are rejected by various authors who highlight the difficulty in applying them in practice. These authors emphasise the importance and necessity of both adaptation and standardisation to be used simultaneously (Prahalad and Doz, 1986; Boddewyn *et al.*, 1986; Douglas and Wind, 1987; Terpstra and Sarathy, 1997; Van Raij, 1997; Hennessey, 2001).

When practising international marketing, a company goes beyond exporting and becomes much more directly involved in the local marketing environment within a given country or market. International marketers are likely to have their own sales subsidiaries and will participate in and develop entire new marketing tactics and strategies for foreign markets. At this point, the necessary adaptations to the firm's domestic marketing strategies become a main concern.

The decision whether to standardise or adapt is not considered as a dichotomous one. For example, certain academics suggest that standardising certain tactics (or parts of it) and adapting others to different market conditions is necessary (Light, 1990; Quelch and Hoff, 1986). It is argued that standardisation and adaptation are not all-or nothing propositions but a matter of degree. Heterogeneity among different countries does not allow full standardisation. On the other hand, the huge costs involved in adaptation and the benefits of standardisation may not allow adaptation to be used extensively.

For a multinational company to be successful, it should incorporate elements of both approaches. Multinational companies, in their effort to be effective, enjoy the benefits as much as they can of both concepts. They also try, on the one hand, to standardise various marketing mix elements and marketing strategies. On the other hand, however, they follow adaptation where necessary in order to satisfy apparent market needs. The goals of reducing costs and market complexity lead companies to consider standardisation, whereas customer orientation may sway them toward product adaptation (Vrontis, 2003). Vrontis argues that decisions on international marketing tactics 7P's depend on a number of determinants. These determinants are grouped into reasons and factors. These reasons refer to those behavioural aspects 'pulling' multinationals tactical behaviour towards the one or the other side of the continuum. The factors refer to those determinants affecting the behaviour and its relative importance. This is illustrated in Figure 1.

Figure 1 The development of the adaptstand model



Source: Vrontis (2003)

2.2 *Private equity financing*

This form of financing would include many forms of both institutional and non-institutional arrangements. Institutional arrangements would typically include venture capital, whereas the non-institutional arrangement pertains to business angels. In addition to these, there are financing arrangements that relate to Management-Buy-Out (MBO) and Management-Buy-In (MBI). MBO and MBI can be normally arranged by venture capitalists.

Venture capital firms

These are firms that provide financing for start-up and early-stage businesses as well as companies in 'turn around' situations. This form of corporate financing is considered a high-risk investment, but often offers the potential for above-average returns if the enterprise achieves good sales levels and promising financial results. Venture capitalists usually pool funds of third-party investors and allocate them according to stringent financial, mangerial and legal criteria to enterprises that are typically too risky for ordinary equity investors or for bank loans. Financial contributions take the form of either equity participation or a combination of equity and debt obligation. It is very common that VCs have representatives on the board of the firm. VCs can have active managers (especially in the financial and marketing areas) and encourage the personnel of small firms to focus on product development. Also, VCs use convertible debt instruments that act as options for them to become fully involved in the ownership of the rising small enterprise, provided that the degree of risk is reduced. In most cases, the venture capitalist becomes part owner of the new ventures. VCs set as their objective, the floatation of the firm on the stock market or even the arrangement of a merger and acquisition normally within a period of four to seven years.

In addition to providing funds, venture capitalists can play the role of an intermediary to arrange additional funding from other sources. These sources include capital market institutional funds that are interested in high-risk/high-return type of investments and also non-institutional funds that are drawn from business angels. Venture capitalists can act as advisers and consultants to small businesses to design a business strategy that includes technical, marketing, managerial, legal and human resource aspects. The economic objective of the venture capitalists is to maximise the return on their risky investment. This is done by establishing efficient business models in the enterprise that they invest in or developing prior to taking the firms to an IPO stage or a merger and acquisition scenario.

Venture capitalists provide different forms of funding at different stages of the small firm development. Initially, VCs can provide *seed capital.* This kind of funding is given primarily to finance the company's launch, where it is mainly used in the pilot testing of the concept and also the marketing research to assess the desirability, willingness and ability of potential customers to buy the product. This form of high-risk capital allows entrepreneurs to develop their business concept and following additional research to formulate a business plan mapping out how to get the product to the market. Due to the fact that seed financings are often too small and require too much hands-on support from the investors, such investments are not very compatible with the investment portfolio of private equity firms.

As the firm proceeds to the stages of renting office space, hiring employees and purchasing the required infrastructural items to run the business, a second form of financing is offered by the VCs. This is known as *start-up capital.* Start-up capital injections develop the company's products and fund their initial marketing efforts. Companies may be in the process of being set up or may have been trading for a short time but might not have sold their product commercially.

As production and sales levels increase and the product becomes relatively known, additional rounds of financing is provided. This is described as *development capital*. Development capital is infused into the business to cover expenditures on expansion of facilities, financing of trade credits, working capital and purchases of further equipment and raw materials in addition to marketing. This type of investment is more aimed at financing commercial manufacturing and marketing campaigns in companies that have finalised their product range and need the scale up operations in order to generate profits.

Private equity firms are widely involved in the provision of capital for Management-Buy-Out (MBO) type of deals. This enables managers to acquire or to purchase a significant shareholding position in business they manage from the owners. MBOs range from the acquisition of relatively small formerly family-owned businesses to multi-million buy-outs. The amounts concerned tend to be larger than other types of financing as they involve the acquisition of an entire business. They represent the great majority of deals undertaken by the private equity industry. In the case of Management-Buy-In (MBI), private equity financing supports outside managers to buy into the company.

The final type of financing that VCs provide before the firm goes public is *Mezzanine financing*. Once a company's shares are publicly traded on the stock market, further funding can be raised by issuing further equity or even debt instruments.

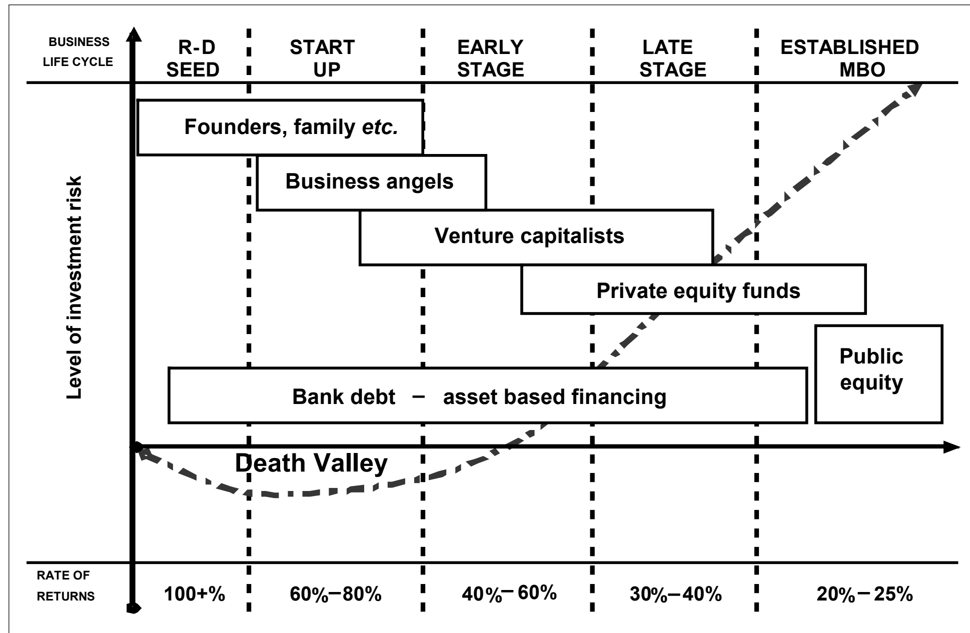
Venture capitalists are always interested in firms with high growth potentials. Therefore, the turn down rates of venture capital financing for application of small firms is typically very high. Some estimates suggest that only one in four hundred ventures presented is successful. Thus, it can be argued that VC financing is suitable for any kind of small firm. This has an impact on the markeing strategy of VCs. Because the niche market is already defined, the marketing strategy, therefore, could be potentially standardised for the industry and adapted for the specific country.

Ventures capitalists tend to be international in their funding as they invest in different countries and industries in order to diversify their portfolio and control their systematic risk of portfolio investments. The investment failure rate of venture capitalists can be very high (one in ten). However, the return on a small number of successful investments can be very high in order to compensate for the poor investments. Internal rates of returns vary regarding the stage of business development and the type of financing needed.

In the 1990s, the industries that benefited substantially from venture capital investments were essentially in computer technology and in the medical and healthcare sectors. However, as the *World Wide Web* (WWW) and the internet-specific businesses were developed, the focus of the venture capitalists changed. They started funding these types of companies. In the USA, for example VC funding supported companies such as Apple, Compaq, Intel and Microsoft in the early stages of their development.

This generic model demonstrates the various funding options (involving varying degrees of risk for investors and subsequently expected rate of returns) available to enterprises as they progress across the stages of business development.

Figure 2 The capital life cycle model



Source: Based on Leleux (1997)

It is important to emphasise the main characteristics that differentiate venture capitalists from the providers of other sources of financing. These characteristics of venture capitalists pertain to their willingness to assume greater risks, which is inherently prevalent in small businesses. In addition, venture capitalists provide managerial and logistical support for the firms where they invest in.

2.3 Business angels

Business angels are typically investors who have been involved in entrepreneurial ventures and have exited. They can be successful corporate directors or wealthy individuals. They have high risk propensity to invest their money and expertise to support start-up entrepreneurial teams, launch and develop new ventures. Business angel funding is paramount for financing ventures at the early stage of their entrepreneurial development when these ventures are not bankable for debt and often suffer from capital deficiencies.

According to the National Business Association Networks, business angels generally invest almost four times as much money in early-stage entrepreneurial firms. Given their variant business and entrepreneurial skill base and multi-dimensional experience, they tend to invest in all sectors of the market place. The selection criteria for their small investment often depends on the quality of the entrepreneurial management team and growth potential of the product or market. Business angels tend to look for an exit after five years, (in line with the Governments Enterprise Initiative Scheme).

Therefore, the marketing strategy of the private equity firms can take different forms. One strategy focuses on the options to offer all the different levels of financing by emphasising the global nature of funding (*e.g.*, seed, start-up, MBO, MBI, mezzanine) targeted at the different levels of the company's growth. This is done to emphasise different financing options available. A second strategy could possibly focus on the marketing of their own expertise in managerial, human resource and marketing skills. However, the question that arises is, Who should they target in their marketing strategy – the small firm directly or the advisers of the small firms such as accountants, solicitors or small firms association?

2.4 Marketing of financial services

Financial services relate to the trading in of money-related activities that provide financial returns and value to both customers and suppliers. The market for financial services has and is still undergoing substantial structural and regulatory changes. Trade barriers and restrictions on the provision of financial services and capital across boundries have been diminishing as the concept of globalisation takes a stronger grip on the way firms and institutions conduct business. Some might argue that, within the structure of the local market, globalisation and the advent of technology force firms to focus on the need for change. It is argued by Meidan (1996) that, in a marketing context of financial services, it has become 'increasingly necessary' to meet the challenges of intensified competition among financial institutions by focusing on marketing techniques and strategies that closely take into account the nature of financial services. Financial institutions sell their services to retail and corportae customers. Consequently, it is important to make a distinction between the kind of marketing strategies that these institutions design and offer. Furthermore, it is argued by Meidan (1996) that financial services are different from ordinary physical products in the sense that they are 'intangible', which means that there is no physical presence to the service that requires storage, transportation or inventory control. Financial services are also 'inseparable' because of the simultaneous nature of production and distribution. The implication of this is a total focus on direct marketing as a channel of distribution. In addition to that, financial services are seen to be 'identical'. This is because there is no clear distinction between the nature of what the service offers. For example, a bank loan is the same whether one borrows from Bank A, Bank B or Bank C; the differences are mainly related to location, reputation, staff, *etc.* Financial services tend to trade in risks where a system of checks and balances has to be established to control for market expansion and customer identification. The market for financial services is 'labour intensive'. Consequently, the concept of marketing personalised services to both retail and corporate customers has to be the focal point of any marketing strategy.

Financial services marketing takes into consideration the normal functions of marketing for any kind of product. These include the 'marketing mix-7P's: product, price, place, promotion, people, physical evidence and process management.

The marketing strategy has to focus on the types of customers that the provider of the financial service is targeting. In this paper, our focus is on small businesses. It is essential to note that this sector should be attractive and of primary importance to the suppliers of financial services (private equity and venture capitalists firms in this case). This is essential not only because of the size of the market but also because of the potentials of

growth and development that this sector has to offer once the small firm enters into a successful gowth mode in the specific industry in which it is operating. However, it is important to balance the risk and returns that arise as a result of entering into financial deals with the small business sector. From a marketing standpoint, we think that what distinguishes the relationship between the small business sector and the offering of financial services such as private equity financing or venture capital is the presence of an independent adviser or intermediary that small businesses constantly resort to. These people are the accountants or accounting firms and, to a lesser extent, independent financial advisors and management conultancy firms. Therefore, the formulation of a marketing model that targets small firms needs to take into consideration accountants, management and financial consultancy firms when deciding on standardising or an adaptation approach to marketing.

3 Standardisation versus adaptation

The concept of international standardisation relates to the selling of a homogeneous product (good or a service) with an identical design, price, distribution, promotion and marketing strategy in different parts of the world.

The advances that have occurred in the world over the past few years regarding the world wide web or the internet, telecommunication, transportation and the reduction of trade barriers have all contributed to the promotion and activation of globalisation. Within this domain is the provision of financial services to different customers located outside the national boundaries. Banks, in general, have historically been seen as examples for offering standardised products and services. Offering a standardised financial service usually reduces the marketing costs to the institution and allows it to capitalise on the economies of scale, creating a stronger competitive position. Firms that standardise their services tend to make centralised strategic decisions in the headquarters and then allow the subsidiaries to decide on the tactical issues. It can be argued that customers' preference and brand loyalty can be enhanced by a standardised image and brand of the service. This has the effect of reinforcing the customers' perception of the company. Standardised marketing strategies, in general, have some inherent problems due to the difficulties of implementation on a global level because of cultural differences, political systems, legal differences and language and communication barriers. In addition, the company standardising the service or product might become less responsive to the local needs especially if the customers require a product that is more compatible with their local thinking and behaviour.

The alternative strategy to standardisation is adaptation. In adaptation, the marketing approaches tend to emphasise the differentiation of various local markets. Given this strategy, the focus of decision making is decentralised and delegated to the subsidiaries in different geographical locations. Adopting this kind of strategy means that the company develops the marketing mix and customises it for a particular market based on the company's own marketing research and objectives. Adaptation strategies take into consideration the political and legal environments, as well as the local needs and expectations. In some cases, countries might have similar legal systems. However, there are differences in the details and interpretation of the law. The USA and the UK might have similar legal systems; but comparative advertising is allowed in the USA but not in the UK. The adaptation of the marketing mix involves changes to the product (service), price, advertising and promotion and, certainly, distribution channels.

4 Conceptual model for private equity providers

The small business sector plays a significant role in the health and growth of many economies. It is certainly emerging as the strategic sector in the new millennium representing over 98% of the total number of all businesses. As a group, small businesses employ nearly 60% of the work force and produce about 45% of the gross national product and approximately two-thirds of new jobs. In their efforts to deal with the business environment and government regulations, small businesses usually engage and employ the services of independent accounts and, to some degree, financial and management consultants. They tend to perform a number of tasks for small businesses that range from the formulation of business plans, marketing strategies, financial projections and the overall accounting advice given to any businesses (both managerial and financial). The relationship between small businesses and their accountants and advisers is important. The latter tends to regularly build a general profile of the financial position of the small firm. Therefore, they can establish a profile of the financial needs of the firm at each stage of growth and development.

Churchil and Lewis (1983) constructed a model that depicts the different stages of small business growth. In Soufani (2003), the model was extended to establish a linkage among the different stages of small business growth and the changing financial needs at each stage of development. Following this approach, one can then establish some tentative proposals for the type of marketing strategy for the private equity firm targeting small enterprises at each stage of small business growth. From a marketing point of view, it is important for the private equity firm to differentiate the target market: intermediaries and service providers to small firms such as accountants, financial adviser and/or small business owner-manager.

The model developed by Churchil and Lewis (1983) shows five stages of development (see Figure 3). Each stage is characterised by an index of size, diversity and complexity. The first stage is *Existence*, where the business is managed personally and is of a simple organic structure. *Survival*, the second stage, is a more complex structure with some delegated tasks that are supervised by the owner. The *Success* stage, the third stage, is a situation where a functional management appears and the owner is concerned with achieving more profit and identifying the potentials in the market. Growth-inspired firms will embark on the *Take-Off* stage, the fourth stage, which will necessitate market and product development, management of talent and infusion of capital. *Maturity*, the last stage, is where the internal system becomes complex and sophisticated and the firm seeks the maximum return on investment.

The model can be further expanded to accommodate another dimension. This is the Product Life Cycle (PLC) of each product (good or service) in different national or international market segments. PLC argues that products, like individuals, pass through a series of stages. Each stage is identified by its sales performance and characterised by different levels of profitability, various degrees of competition and distinctive marketing programmes. The product life cycle concept describes distinct stages in the sales and profit history of the product. Depending on whether a product is in the introduction stage, the growth stage, maturity stage or decline stage of its life cycle, different environmental forces dictate changes in the appropriate objectives, strategy and tactics to be adopted (Vignali *et al.*, 2003).

Figure 3 A model of adaptations versus standardisation for private equity funding

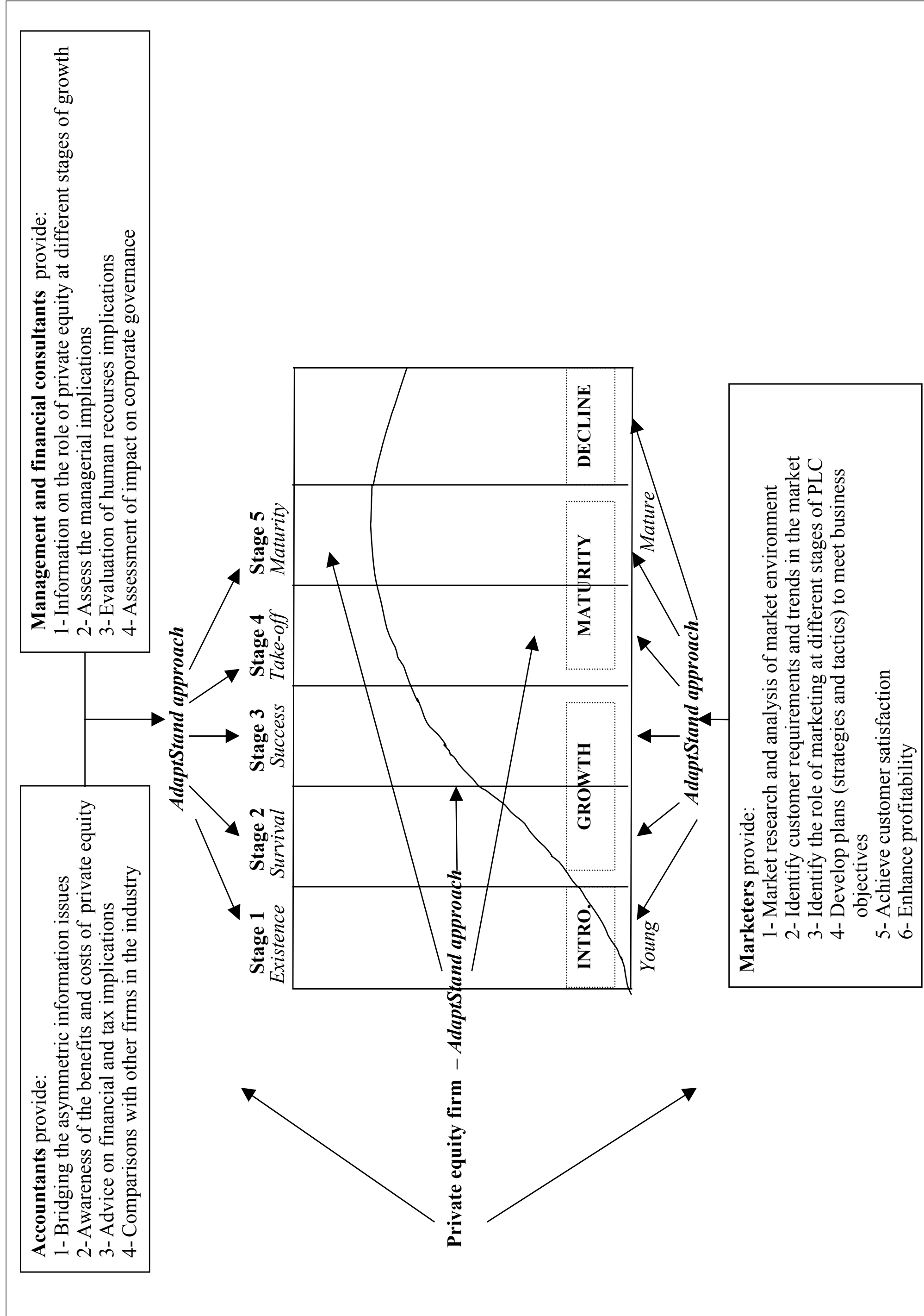


Figure 3 also illustrates how the marketing department can support the overall process (see bottom of Figure 3). As indicated, marketers can guarantee marketing orientation and customers' satisfaction. Market research aims to identify customers' requirements in an ongoing changing market environment. It can also aid in the development of marketing plans, strategies and tactics. The marketing department can also support product development and launching as required by the relative stage at the PLC and develop plans to meet both corporate and business objectives.

The above chart shows that the size of the firm is directly related to the firms' stage of development. Therefore, it can be inferred that the different stages would reflect different financial needs where cash flow levels propel the enterprise to invest, expand and develop. The marketing strategy will be formulated depending on whether the financial service (private equity or venture capital) is to be introduced to the small firm directly or recommended by the advisers of the small firms such as accountants and financial consultants. Accountants typically have more information than their clients (the small firms) about the availability of financing, criteria for financing, strength of the balance sheets and tax shield for deciding on debt or equity. Given the nature of their profession and knowledge, accountants can potentially provide an analytical assessment of the costs and benefits of pursuing the private equity route. Furthermore, they can provide a comparative analysis among different customers. They can also identify success and failure cases. The same argument can be applied to the management and financial consultants that provide advice to the small firm. These people have access to information about the availability of financial products in the market. They can give advice on the advantages and disadvantages of private equity and venture capital and the impact on the corporate governance of the firm. Realistically speaking, the great majority of private SMEs do not have either the capacity or the motivation to progress to that stage of business development where they will have to consider the private equity capital option. It is argued by Poutziouris (2001) that, due to the prevalence among smaller company directors of the general antipathy (and myopia) about venture capital dealings, the majority of privately and closely held owner-managed ventures do experience an *information gap* about the mechanics of private equity and venture capital provisions. This experience is especially true for those ventures that are often not in pursuit of growth strategies in the emerging new economy. Therefore, we can argue that marketing in general and the marketing strategy in particular can play an important part in closing this information gap.

Accountants and financial consultants can identify the stage of the small firm's life cycle. Each stage can reflect the presence of a certain set of criteria relating to management style, growth aspirations and financial needs. It is worth noting that the financial needs of the small firm at different stages would differ substantially. The existence and survival stages are characterised by financial capital mainly injected by the owner of the business. The success, take-off and maturity stages are characterised by financing obtained from external sources. Therefore, the marketing strategy of accountants, management and financial consultants should adopt an adaptation approach to marketing the financial product. This is mainly because small firms in different industries can be operating at different stages of growth and development. A similar approach was followed by Soufani (2001) to establish the relationship between the financial needs through the working capital requirements (*e.g.*, the need for cash or liquidity) and the size of the firm during turnover. In the infant stage (existence or

start-up phase), small firms need more cash or liquidity relative to firms at a more developed stage in the business life cycle. To illustrate this, large firms might have access to bank loans or the credit market through financial institutions; this privilege is often not offered to small firms at the infant stage. Sufficient liquidity is needed in the start-up phase because it is at this stage that the product or service is being introduced, promoted and sold (possibly on credit terms). It is also at this stage where employment is being created. Furthermore, it is observed that, at the start-up stage, firms may potentially experience credit rationing (Soufani, 2001). Hence, the marketing strategy that informs the small enterprise about the potential availability of finance would possibly be successful in securing financial deals with the private equity firm.

In the case where the private equity firm or venture capitalist is directly selling its services or capital to the small firm, the marketing strategy of private equity firms should, whenever possible, emphasise standardisation strategies for costs reduction and centralisation in management. The standardisation approach of the marketing strategy is appropriate at all the stages of growth because the private equity firm has one product that it is selling to firms regardless of the stage of growth. In fact, the private equity firm can identify the business and profit potentials at any of the stages. However, adaptation is also necessary to meet the diverse needs of customers and thus achieve marketing orientation. As indicated before, the goals of reducing costs and complexity lead companies to consider standardisation, whereas customer orientation sways them toward adaptation. Companies' emphasis and focus should not be on which of the two approaches is better but on how to maximise performance and effectiveness by integrating adaptation and standardisation at an optimal level.

5 Conclusion

Theoretical arguments form the supply side of private equity services might support the perceptions of suppliers of those services to indicate that there is indeed a focus of provision according to specific business characteristics. The demand for private equity services will tend to reflect the relative impact of financial constraints and the lack of sufficient liquidity on firms. The area of active demand and receipt of private equity services represents the extent of overlap between these forces governing supply and demand, which can be accentuated in the marketing strategy. The subset of firms both demanding and receiving private equity services will exclude those firms who could benefit but do not qualify under the explicit and implicit selection criteria operated by suppliers. Therefore, the marketing strategy could be adapted for specific kind of clients. It also excludes those firms whose suppliers would readily accept but who have access to alternative and preferred sources of finance. The present evidence does not enable the calculation of the proportion of firms who would benefit from private equity services but who do not have access to their provision. Despite this evidence, it is clear that large portions of the small firms sector are effectively excluded because of the lack of effective and informative marketing strategy. Therefore, two strategies may be appropriate. The first is a standardised marketing strategy that targets accountants and financial advisers; the second is an adapted one that targets the small firm at different stages of its growth and development. However, it is suggested for future research to empirically test the effectiveness of this model.

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