Impact of Digital Marketing on Business Performance of Small and Medium Businesses in Birendranagar, Surkhet

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ABSTRACT

This study explored the impact of digital marketing on the business outcomes of small and micro enterprises in Birendranagar, Surkhet. Despite recognized benefits, local businesses faced significant barriers, including limited resources and technical expertise, necessitating a focused investigation within Birendranagar's context. The study's primary objectives were to evaluate digital marketing adoption, its impact on business performance, and the mediating role of customer engagement.

Using descriptive and analytical research designs, data were collected from 167 businesses through surveys and interviews. The findings indicated moderate adoption of digital marketing, with social media, email, content marketing, and SEO being commonly used. Customer engagement, monitored through social media interactions and email tracking, played a crucial mediating role in enhancing business performance. Descriptive and inferential statistics, including correlation and regression analyses, revealed strong positive relationships between digital marketing strategies, customer engagement, and business performance. Specifically, digital marketing significantly improved revenue, customer acquisition, and profitability, with a Cronbach's Alpha of 0.927 indicating high reliability of the measures used.

The study concluded with recommendations to enhance digital marketing effectiveness, emphasizing the importance of technical training and strategic budget allocation. This research provided valuable insights for local entrepreneurs, helping them leverage digital tools to optimize business performance.

1. INTRODUCTION

In the modern digital landscape, digital marketing has become increasingly vital for small and micro businesses to enhance their market presence, attract customers, and drive growth. The transition from traditional to digital marketing offers these businesses new opportunities to compete on a larger scale with limited resources. By leveraging tools such as search engine optimization (SEO), social media

marketing, email marketing, content marketing, and online advertising, small businesses can reach a broader audience, engage with customers in real-time, and tailor their marketing efforts to specific demographics. Research indicates that adopting digital marketing practices leads to increased brand visibility, customer engagement, and overall business performance (Chaffey & Ellis-Chadwick, 2019). For example, Taiminen and Karjaluoto (2015) found that small businesses experienced significant improvements in customer acquisition and retention by implementing digital marketing strategies. Similarly, Maduku et al. (2016) revealed that digital marketing positively influences the financial performance of small and medium enterprises (SMEs) in developing economies.

Further studies support the idea that digital marketing enables small businesses to achieve greater market penetration and customer engagement at a lower cost than traditional methods (Kotler et al., 2017). Tiago and Veríssimo (2014) highlighted that digital marketing improves customer relationships and market reach, while Dwivedi et al. (2020) emphasized its role in enhancing business performance through better customer insights and personalized marketing. Additionally, Pelsmacker et al. (2018) demonstrated how social media, as a key digital marketing tool, can create strong customer relationships and improve customer loyalty through targeted engagement. Charoensukmongkol and Sasatanun (2017) further underscored the importance of social media, showing that businesses active in social media marketing experience higher levels of customer interaction, brand awareness, and sales performance. This body of research underscores the critical role digital marketing plays in leveling the competitive field for small businesses and achieving long-term success in today's digital economy.

The rising influence of digital marketing has transformed the business landscape, particularly for small and medium enterprises (SMEs). However, its impact on SMEs in specific regions like Birendranagar, Surkhet, is not well understood. Although digital marketing is globally acknowledged for enhancing business reach and efficiency, evidence of its effectiveness in Nepal, where digital infrastructure and literacy are still evolving, is limited (Khadka, 2023). SMEs in Nepal face unique challenges, including limited financial resources, technical expertise, and access to digital tools, which hinder their ability to fully leverage digital marketing (Devkota et al., 2021). Existing studies primarily focus on urban areas, neglecting the socio-economic dynamics of small towns (Shrestha, G. 2019). This research gap leads to uncertainty for local businesses in utilizing digital marketing effectively, resulting in underutilization and poor measurement of outcomes (Pathak, C. 2020). Therefore, this study seeks to explore the impact of digital marketing on the business performance of SMEs in Birendranagar, identifying key barriers and enablers specific to the local context.

The study aims to evaluate the adoption of digital marketing strategies among small and micro businesses in Birendranagar, Surkhet, with a focus on how social media marketing, email marketing, content marketing, and SEO impact business performance. It also examines the role of customer engagement in mediating the relationship between digital marketing efforts and business outcomes, and provides recommendations for enhancing the effectiveness of these strategies.

2. LITERATURE REVIEW

The integration of digital marketing strategies has become crucial for the growth and sustainability of small and medium businesses (SMBs) across the globe. This literature review aims to analyze the impact of digital marketing on the business performance of SMBs, with a specific focus on Birendranagar, Surkhet. The review will cover key digital marketing strategies, their effectiveness, challenges faced by SMBs in implementing these strategies, and their overall impact on business performance.

3. DIGITAL MARKETING STRATEGIES IN SMBS

Digital marketing strategies, including social media marketing (SMM), search engine optimization (SEO), email marketing (EM), content marketing (CM), and e-commerce, have become essential for small and medium-sized businesses (SMBs) to expand their reach, build brand awareness, and enhance customer engagement. Research highlights the critical role these strategies play in driving business growth by improving market reach and interaction with customers (Wadhwa, 2023). Among these strategies, social media marketing stands out as a particularly powerful tool, allowing SMBs to engage with customers in real-time and create personalized campaigns, significantly boosting sales performance and promoting long-term sustainability (Bala, M., & Verma, D. 2018).

Effectiveness of Digital Marketing on Business Performance

The effectiveness of digital marketing in boosting business performance is well-established, with studies showing that small and medium businesses (SMBs) that adopt digital marketing strategies see significant improvements in sales, customer retention, and profitability. Omar et al. (2020) found that such businesses also benefit from enhanced visibility and reputation. During the COVID-19 pandemic, Gao et al. (2023) observed that SMBs integrating digital marketing with e-commerce platforms were able to maintain and even improve their financial performance, highlighting digital marketing's critical role in sustaining business success during economic challenges.

Challenges in Implementing Digital Marketing

Small and medium businesses (SMBs) face significant challenges in implementing digital marketing strategies despite their potential benefits. Limited budgets and resources often hinder SMBs from fully utilizing digital marketing tools, as significant investment in technology and skilled personnel is required to remain competitive (Wadhwa, 2023). Additionally, the lack of technical knowledge and expertise within these businesses further complicates the effective management of digital marketing campaigns, leading to suboptimal outcomes. However, integrating digital marketing with effective customer relationship management (CRM) strategies has been shown to help SMBs overcome some of these challenges, thereby enhancing their overall business performance (Mehralian & Khazaee, 2022).

Impact on Financial Performance

The financial performance of SMBs is positively influenced by their digital marketing efforts, with research demonstrating a clear correlation between the adoption of digital marketing strategies and improvements in key financial metrics such as sales growth, profitability, and market share. For instance, a study by Nuseir and El Refae (2022) in the UAE insurance sector found that digital marketing significantly enhanced business performance by boosting customer engagement and driving sales. Similarly, Purba et al. (2021) observed that Indonesian SMBs that utilized digital marketing during the COVID-19 pandemic not only improved their financial performance but also positioned themselves for sustained long-term growth.

Customer Engagement and Business Performance

Customer engagement involves the interactions between a business and its customers across digital channels, with the goal of building strong, lasting relationships. Engaged customers tend to make repeat purchases, advocate for the brand, and generate positive word-of-mouth, which can significantly boost business performance. Studies by Patria et al. (2023) demonstrate that effective digital marketing,

particularly through social media, plays a crucial role in enhancing customer engagement for SMEs. These findings suggest that SMEs in regions like Birendranagar, Surkhet, can improve their market presence, customer loyalty, and overall business performance by prioritizing digital marketing and customer engagement strategies.

In conclusion, digital marketing has a profound impact on the business performance of SMBs. The adoption of digital marketing strategies such as social media marketing, SEO, and content marketing has been shown to improve sales performance, customer retention, and profitability. However, SMBs face challenges such as limited budgets and technical expertise, which can hinder the full realization of these benefits. Despite these challenges, the evidence suggests that digital marketing is a vital tool for SMBs looking to enhance their performance and sustain their businesses in an increasingly competitive market.

Independent Variables

- Digital Marketing Strategy
- Customer Engagement

Dependent Variable
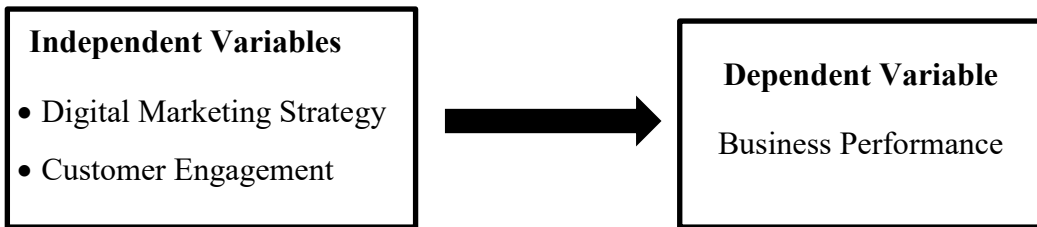
Business Performance

Figure 1: *Conceptual Framework*

The researcher identified the gaps in current research, particularly the lack of studies focusing on small and micro businesses in Birendranagar, Surkhet. There was a need for empirical data on the effectiveness of digital marketing strategies in this context.

4. METHODS AND MATERIALS

This study used a combination of descriptive and analytical approaches to analyze the adoption of digital marketing among small and micro businesses in Birendranagar, Surkhet. Descriptive analysis was used to summarize the current state of digital marketing adoption, while analytical methods were used to evaluate the impact of these strategies on business performance. A representative sample of 167 businesses was selected using convenience sampling, including business owners and managers responsible for digital marketing decisions. Data collection methods included structured questionnaires distributed to business owners and managers, capturing information on digital marketing practices, frequency, perceived effectiveness, and budget allocation. Descriptive statistics were used to summarize the data and describe the current state of digital marketing adoption. Inferential statistical techniques, such as regression analysis and correlation studies, were employed to analyze the relationship between digital marketing strategies, customer engagement, and business performance. These methods provided insights into the strength and direction of relationships among the variables, allowing for a comprehensive understanding of digital marketing adoption and its effectiveness.

5. RESULT

This chapter provided an in-depth analysis of the data collected and presents the key findings of the study. It highlighted the significance of the analysis in understanding the relationship between digital marketing and the business performance of small and micro businesses in Birendranagar, Surkhet.

6. DEMOGRAPHIC AND BUSINESS PROFILE OF RESPONDENTS

This sub section of the study concerned the analysis and interpretation of socio-economic and demographic characteristics of the respondents. It included their socio-economic and demographic characteristics such as gender, education status, number of employees, type of business, operational year, etc.

Table 1:

Demographic and Business Profile of Respondents

Variable	Category	Frequency	Percentage
Gender	Female	58	34.70
	Male	109	65.30
Education Status	Primary	29	17.40
	Intermediate	59	35.30
	Undergraduate	60	35.90
	Graduate	19	11.40
Number of employee in Business	Less than 10	93	55.70
	11-20	59	35.30
	21-30	12	7.20
	31-40	1	0.60
	More than 40	2	1.20
Nature of Business	Manufacturing	1	0.60
	Service	65	38.90
	Retail	50	29.90
	Other	51	30.50
Years of Business Operations	Less than 1 year	8	4.80
	1-5	45	26.90
	6-10	55	32.90
	11-15	37	22.20
	More than 15 years	22	13.20

Source: Field Survey 2024

The demographic and business profile of respondents in the study, the majority of respondents were male (65.3%), with females comprising 34.7%. The education level of respondents varied, with 35.9% holding an undergraduate degree, 35.3% having an intermediate education, 17.4% with primary education, and 11.4% being graduates. Regarding the number of employees, most businesses had fewer than 10 employees (55.7%), while 35.3% had between 11-20 employees, and a smaller percentage had more than 20 employees.

In terms of the nature of businesses, the service sector was the most represented, accounting for 38.9% of respondents, followed by retail (29.9%) and other business types (30.5%). The manufacturing sector was minimally represented, with only 0.6% of respondents. The duration of business operations showed that 32.9% of businesses had been in operation for 6-10 years, 26.9% for 1-5 years, and 22.2% for 11-15 years. Fewer businesses had been operational for more than 15 years (13.2%) or less than 1 year (4.8%). This demographic and business profile provides a comprehensive understanding of the sample's diversity, reflecting various levels of experience, business types, and workforce sizes.

Digital Marketing Strategies

Table 2 presents the results of a survey on the use and perception of digital marketing strategies among small and medium businesses, measured using a Likert scale from 1 (strongly disagree) to 5 (strongly agree). The data indicates that, on average, respondents frequently use digital marketing strategies, including social media, email, content marketing, and SEO, with a mean score of 4.02 and a standard deviation of 1.180. This suggests a generally positive attitude towards the utilization of these strategies.

Table 2:

Digital Marketing Strategies

	N	Minimum	Maximum	Mean	Std. Deviation
[DM1: I frequently use the digital marketing strategies(social media, email, content marketing, SEO)]	167	1	5	4.02	1.180
[DM2: I believe that the digital marketing strategies are effective in reaching my target audience.]	167	1	5	3.63	1.153
[DM 3: I often allocate marketing budget to digital marketing.]	167	1	5	3.49	1.317
Valid N (listwise)	167				

Source: Survey 2024

In contrast, respondents rated the effectiveness of digital marketing strategies in reaching their target audience slightly lower, with a mean score of 3.63 and a standard deviation of 1.153. This indicates a moderate level of agreement regarding the effectiveness of digital marketing. Additionally, the allocation of marketing budget towards digital marketing received a mean score of 3.49 and a standard deviation of 1.317, reflecting a somewhat positive but less pronounced trend in budget allocation. Overall, while businesses frequently use digital marketing strategies, there is a moderate perception of their effectiveness and a cautious approach to budget allocation for these activities.

Customer Engagement (CE)

Table 3:

Customer Engagement

	N	Minimum	Maximum	Mean	Std. Deviation
[CE1: I often monitor social media interactions (likes, shares, comments).]	167	1	5	3.49	1.298
[CE2: I often track email open rates and click-through rates.]	167	1	5	2.89	1.146
[CE3: I am satisfied with customer engagement from my digital marketing efforts.]	167	1	5	3.51	1.246
Valid N (listwise)	167				

Source: Survey 2024

Table 3 showed the descriptive analysis of customer engagement. The sample of 167 respondents indicated that, on average, they often monitored social media interactions (likes, shares, comments), with a mean of 3.49 and a standard deviation of 1.298, reflecting moderate variability in responses. They also tracked email open rates and click-through rates, but less frequently, with a mean of 2.89 and a standard deviation of 1.146. Respondents were generally satisfied with customer engagement from their digital marketing efforts, with a mean of 3.51 and a standard deviation of 1.246, indicating moderate variability in satisfaction levels.

Business Performance (BP)

Table 4:

Business Performance

	N	Minimum	Maximum	Mean	Std. Deviation
[BP1: My revenue has changed since the implementation of digital marketing strategies.]	167	1	5	3.60	1.252
[BP2: My customer acquisition rate has changed since implementing digital marketing strategies.]	167	1	5	3.47	1.171
[BP3: My profitability has changed since implementing digital marketing strategies.]	167	1	5	3.66	1.201
Valid N (listwise)	167				

Source: Survey 2024

Table 4 explain the descriptive analysis of business performance following the implementation of digital marketing strategies. The sample of 167 respondents indicates that, on average, they have observed changes in revenue (mean: 3.60) with a standard deviation of 1.252, suggesting moderate variability in responses. Respondents also reported changes in customer acquisition rates (mean: 3.47) with a standard deviation of 1.171, indicating moderate variability. Additionally, there have been changes in profitability (mean: 3.66) with a standard deviation of 1.201, showing moderate variability in how digital marketing strategies have impacted their business performance.

Reliability Test

Table 5:

Reliability Statistics

Cronbach's Alpha	N of Items
.927	9

Source: Survey 2024

Table 5 showed the reliability statistics. Cronbach's Alpha ranged from 0 to 1, with higher values indicating greater internal consistency. A value of 0.927 was considered excellent, suggesting that the items in the set were highly consistent with each other. This indicated that the items in the survey or measurement tool were closely related and effectively measured the same underlying concept, such as digital marketing strategies or customer engagement.

Correlation

Table 6 showed the Pearson correlations between Digital Marketing (DM), Customer Engagement (CE), and Business Performance (BP), indicating strong positive relationships among these variables. Specifically, a higher use of digital marketing strategies correlated with increased customer engagement ($r = 0.737$) and greater budget allocation to digital channels ($r = 0.807$).

Table 6:

Correlation

	DM	CE	BP
DM	1		
CE	.737**	1	
BP	.807**	.743**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Survey 2024

Additionally, higher customer engagement was associated with increased budget allocation ($r = 0.743$). These significant correlations at the 0.01 level underscored the interconnected nature of digital marketing effectiveness, customer engagement satisfaction, and strategic budgeting decisions within the surveyed organizations.

Regression Analysis

Table 7:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.836[a]	.700	.696	1.77040

Source: Survey 2024

Table 7 demonstrated a robust fit with a strong linear relationship ($R = 0.836$) between predicted and observed values. It explained 70% of the variance in the dependent variable, indicating substantial predictability from the independent variables. The adjusted R Square of 0.696 confirmed the model's reliability after accounting for predictors, and the standard error of 1.77040 suggested accurate predictions. Overall, the model effectively captured and explained the variability in the dependent variable, supporting its validity and utility in analyzing the data.

Table 8:

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	1196.848	2	598.424	190.927	.000[b]
Residual	514.027	164	3.134		
Total	1710.874	166			

a. Dependent Variable: BP
b. Predictors: (Constant), CE, DM

Table 8 showed that the ANOVA for the regression model provided strong evidence that the predictors, Customer Engagement (CE) and Digital Marketing (DM), significantly explained the variance in the dependent variable (BP). The high F-statistic (190.927) and very low p-value (Sig. = .000) indicated that the model was highly statistically significant. Specifically, the regression model with CE and DM as predictors effectively accounted for the variability in BP, affirming their substantial contributions to predicting budget allocation.

Table 9:

Coefficient of Variables

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
(Constant)	1.069	.513		2.083	.039		
DM	.564	.063	.568	8.973	.000	.457	2.186
CE	.341	.066	.325	5.130	.000	.457	2.186

a. Dependent Variable: BP

Table 9 showed the multiple linear regression analysis for Business Performance (BP), where both Digital Marketing (DM) and Customer Engagement (CE) emerged as highly significant predictors ($p < .001$). DM demonstrated a stronger impact on BP (Beta = 0.568) compared to CE (Beta = 0.325), supported by their respective t-statistics of 8.973 and 5.130. The model was robust with no multicollinearity issues (Tolerance = 0.457, VIF = 2.186), affirming the independent contributions of DM and CE to explaining variance in BP.

7. DISCUSSIONS

The study conducted in Birendranagar, Surkhet, among small and micro businesses provides insightful findings across various dimensions:

Demographically, the study reveals a diverse profile among respondents. The majority are male (65.3%) compared to female (34.7%), with a varied educational background predominantly at the undergraduate (35.9%) and intermediate levels (35.3%). Most businesses have fewer than 10 employees (55.7%), primarily operate in the service sector (38.9%), and have been in operation for 6-10 years (32.9%).

In terms of digital marketing strategies, the survey shows high usage (mean: 4.02), perceived effectiveness (mean: 3.63), and frequent budget allocation (mean: 3.49). Customer engagement activities, such as social media monitoring (mean: 3.49) and email tracking (mean: 2.89), are also practiced moderately, with overall satisfaction at a mean of 3.51.

The analysis of business performance indicates that the implementation of digital marketing correlates significantly with increased revenue (mean: 3.60), customer acquisition rates (mean: 3.47), and profitability (mean: 3.66), suggesting positive impacts on operational metrics.

Regression analysis further confirms these relationships, with both digital marketing (Beta = 0.568) and customer engagement (Beta = 0.325) emerging as strong predictors of budget allocation (BP), supported by a high R-squared value (0.700) and significant F-statistics (190.927).

These findings underscore the critical role of digital strategies in enhancing business performance metrics, highlighting the importance of strategic digital investments for small and micro businesses in Surkhet.

8. CONCLUSIONS

The analysis provides compelling insights into the relationship between digital marketing strategies, customer engagement, and business performance among small and micro businesses in Birendranagar, Surkhet. Strong positive correlations between digital marketing efforts, customer engagement levels, and budget allocations highlight the interconnectedness of these factors in driving business success. Regression analysis confirms that both digital marketing and customer engagement are significant predictors of budget allocation, with digital marketing having a slightly stronger influence. The high reliability of survey items and robust statistical measures such as Cronbach's Alpha, R-squared, and ANOVA underscore the validity and reliability of the findings. These results suggest that effective digital marketing strategies not only enhance customer engagement but also improve business performance, emphasizing the critical role of digital marketing in modern business strategies for small enterprises in this region.

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