Chapter 3
MARKETING STRATEGY FOR SMALL BUSINESS:
CONCEPTUAL FOUNDATIONS

The two key marketing concepts:
**Segmentation and Product Differentiation**

At the root of strategic marketing are two concepts, segmentation and differentiation, also referred to as targeting and positioning. These two dynamic concepts underlie both marketing theory and practice.

**Segmentation**

Market segmentation is rooted in the following assumptions:
- You cannot be everything to everybody.
- Focused effort leads to superior results.
- A smaller firm should concentrate on market(s) where the opponents are weak.
- In a market with heterogeneous demand, one can earn higher than average profits by concentrating on a distinct group (target) with a similar demand.
- Segmentation avoids head to head competition.
- Segmentation leads to market opportunities.

Customer demand ranges from homogeneous demand to heterogeneous demand with a lot of positions in between.

Steven Schnaars’ places segmentation on a continuum of diffused preference to clustered preference to homogeneous preference. Figure 3-1 demonstrates the customer continuum.

**Diffused Preference**

Each customer has a unique preference. A customized marketing approach with products that are unique for every customer is needed. With the advent of high level technology, it is now possible to sit down with the customer, design the desired product, and send the specifications off to the factory for the product to be made.

**Homogeneous Preference**

This is the market where all customers have similar preferences. The market is one large segment, without natural differences. Markets may start off as uniform, but over time special needs may develop. Many building product manufacturers face a homogeneous market with few opportunities to differentiate their product or to focus on a small market with unique needs. Increased wealth among consumers often leads to new segments, each filled with consumers who wish something just a little different from the commodity offered.

**Clustered Demand**

This is the fertile ground for segmentation. This is where distinct customer preferences divide up the market. One market may have several clusters separated along different dimensions of needs and wants. For example, buyers of computers may be separated along those who buy on price compared to those who buy on company size and reputation. Or, a cluster may form around service and price offering. Different brands may be offered to the different target segments. For example, in order to satisfy the needs of two different markets, IBM offers PS 1/2 and the no-brand Ambra PC.

**The Process of Market Segmentation and Differentiation**

The general process can be seen as follows:

**Market Segmentation**
- Identifying important customer variables and
selecting the best and most appropriate variable to fit with your product or services.

**Target Market**
Evaluating the most attractive customer grouping and selecting the target segments.

**Positioning (Differentiation)**
Developing a competitive advantage in the segments (target markets) selected.

**What is a Market and what is Demand?**
Demand is the potential purchases of a market or of a segment of a market. Demand is what is available for the organization in terms of customer sales or purchases. Demand estimation is an inexact science, but an organization needs an understanding of the potential demand in the market or in the particular submarket, segment or niche that it is interested in marketing to.

A market possesses three basic characteristics:
1. customers with common needs,
2. customers with the capacity and resources to buy,
3. customers who are interested in buying.

There are four types of markets:

**Consumers:**
This group buys for personal needs or gifts. The type of products purchased are generally labelled consumer goods and sub-classified as durable goods (lasting products) or non-durable products (consumed almost immediately).

**Business:**
Buys products either to consume in the manufacturing process or the business process, or to be part of a larger product; for example, motors for a washing machine manufacturer.

**Institutions:**
Government, universities, hospitals - buy similar products and services as business. Some are consumed in the process, for example, paper; other items, such as x-ray machines, are used to carry out the work of the institution.

**Not For Profit Sector:**
These organizations are similar to institutions in the type of products purchased. Because of the nature of the organization, they may be more careful with purchases. These organizations include orchestras, fundraising societies, and many others. They are traditionally small, and do not fit the mould of the institution.

**Segmentation and the Smaller Organization**
A segmentation strategy is ideal for the smaller organization. With limited resources at the organization’s disposal, the focus on a narrow slice of the market with a homogeneous demand allows the organization to be very competitive along a narrow spectrum, and in some cases enables the organization to compete effectively against larger and more powerful companies. By understanding the unique needs of the small segment, the company can develop a powerful competitive advantage. A small firm can successfully defend a small part of the market.

There are many success stories to demonstrate this. The custom packaging industry is dominated by large companies, yet smaller companies compete very successfully by focussing on smaller segments and satisfying unique customer needs. In the computer hardware and software industry, small, narrowly focussed companies developed better products and provided better service, first to a small group of customers and eventually to a much larger customer group. Niche marketing is the preferred strategy for the smaller company. Small firms must fish in small ponds if they are to be successful.

**The Stages of Market Segmentation**
1. Identify the variables that can be used to divide the market into smaller groupings. This might be as simple as dividing the market into small and large business organizations, or as complex as dividing the market by lifestyle, geography and benefits sought from the product.

2. Select groups that are different in what they require from the marketer; for example, fast delivery versus average delivery, small orders versus large, high image product versus low image product. A profile of the needs of each customer group should be developed. These profiles should explore the needs, demands, motives, attitudes, preferences and the purchase decision process for the customers in each group.

3. A preliminary evaluation of potential opportunities in each segment, and a discarding of the segment(s) that either present no opportunity or which the organization does not have the resources to deal with.

4. After an analysis and evaluation of the potential for each segment, one segment should be selected as the main target market; other segments may be selected as secondary or tertiary markets. This is
followed by positioning products or services against the key market and developing a marketing plan to explore the opportunities in one or more segments. (See figure 3-2)

**Segmentation Variables**
For consumer markets the following variables are applicable:

- geographic
- demographic
- lifestyle, psychographics
- benefits wanted
- usage
- impact of marketing variables, for example, price
- loyalty
- awareness
- type of purchase situation

For business, institutional and not for profit markets, the following variables are applicable:

- demographics (size, location)
- type of organization
- technology
- purchase process
- loyalty
- product needs
- service needs
- characteristics of the decision making unit and/or the purchasing agent
- type of buying situation (new, repeat, or modified repeat, for example, price change)

**Basic Prerequisites for Proper Segmentation**
- Customers must be different along some dimension and you must be able to measure or identify this difference. Income, for example, is a demographic variable that differentiates among consumers. Technology application differentiates some manufacturers.
- The difference in the customer must be related to differences in purchases; that is, demand. For example, income differences may lead to different product purchases; that is, automobiles, jewellery, and home; but not likely in the brand of soap. The level of technology in a plant will result in different maintenance products being purchased.
- You must be able to identify and access the segment. Higher income persons may be reached via different media, as may high technology manufacturers. The market segment targeted must be of a sufficient size that it can be profitable to focus on it.

**Benefits of Segmentation**
Finding a target market provides a focus point for the organization and its marketing effort. Everything the organization does becomes driven by the target group. This leads to a much higher efficiency of the marketing resources; for example, the sales force calls on the right companies in the right industry, the communication efforts can now be pinpointed, and there is little waste. New product development can be geared to the needs of the target market, as can the services the organization offers. A focus allows a better development of competitive advantages in the market, since it provides a better understanding of the market and the competitive forces within the market.

**Examples of Segmentation Strategies**
Western Star Trucks, Inc., of Kelowna, B.C., holds about 1.5 percent of the North American market for class B heavy trucks. However, the company manages to make a profit, building about 3,000 trucks a year in a market saturated with powerful and deep-pocket competitors, some of whom build more than 30,000 trucks a year.

It does so, says president and chief executive Joe Kalinowski, by being the only remaining custom truck builder in North America. It makes the Rolls-Royce of highway haulers for about the same price as the competition’s standardized output.
It seems that labour and management both realize that they must overcome the disadvantages of distance from suppliers and customers, and put forth extra effort to succeed. But, on top of this, management has developed a careful marketing plan that involves appealing to a narrow segment of the heavy-truck market and serving that segment very well.

“We quite deliberately overbuild the trucks because we believe with what you pay for a truck you want to have a viable working vehicle for at least 10 years….At our volume, it is quite feasible to do precisely what the buyer wants, so we are able to customize that truck to absolutely maximize its legal loading”, says Kalinowski.

Western Star’s strategy of finding and serving a market niche once again proves the value of understanding the various components of the market, and matching a marketing program to serve a specific segment.2

A Winnipeg security company serving Western Canada sees the market segments in their service-based industry as follows:

1. Large security-conscious organizations. These organizations are high risk companies with highly valued assets. They are well informed and make buying decisions based on both quality and price.
2. Companies where security is a low priority. For these firms, price is important in the purchase decision.
3. Government purchasing is done via bidding, on a specified contract.
4. Once in a while users could be seasonal or for major events such as the Grey Cup.3

The Ideal Strategy for the Smaller Organization: Market Niche

The smaller organization, with limited financial and human resources, is better off to specialize in a part of a market in order to avoid a head-on fight with larger companies. The smaller organization should select and specialize in a market niche. Market niches can be a calm in a storm of competition, and in many instances afford the opportunity to earn above average profits. Kotler4 lists the ideal market niche as having the following characteristics:

- The niche is of sufficient size and purchase power to be profitable.
- The niche has growth potential.
- The niche is of negligible interest to major companies.
- The firm has the required skills and resources to serve the niche effectively.
- The firm can defend itself against an attacking major competitor through the customer goodwill it has built up.

Since niches may slow down in growth and decline in the level of opportunity that they present, many organizations, especially service organizations, develop a multiple niche strategy; they specialize in two or three niches in different markets. An organization develops a competitive advantage in several niches and this increases the probability of growth. The total market share may be low, such as Western Star, but the share of the niche is high, as is the profitability.

Niche Strategies

There are many smaller organizations which have become successful by following a niche strategy; for example:

- **Specialization Niche**: a travel agency that specializes in ocean travel only; a book store that carries only mysteries.
- **Quality Niche**: a builder who builds custom, high quality houses only; a chocolate retailer who sells only the best and highest quality chocolates.
- **Size Niche**: a manufacturer who produces only small lots; a computer software maker who produces only for large organizations.
- **Price Niche**: a retailer who sells at a discount all the time; a distributor of low cost office furniture.
- **Service Niche**: a retailer who offers a high level of service; a plumber who is open 24 hours a day, seven days a week.
- **Location Niche**: an organization which limits itself to certain geographic boundaries, such as a neighbourhood or a city.

Micro Segmentation (Micro Niche)

Sometimes there are unique opportunities, especially in the service industry, to serve a segment of a segment or a micro niche. These opportunities are often created by unique circumstances. Dog walking is such a niche; within the segment, dog owners,
there are those who wish their dog or dogs walked, but do not have the time or the energy. K-9 Klean Up is a company that markets to a micro niche; their service is shown in their advertisement.

Since you are appealing to such a thin slice of a market, you need a large population to make micro niching a successful strategy.

**Product Differentiation and Positioning**
A product or service with a difference that has added value to the buyer provides the organization with a certain monopoly. At one end of the scale we have pure commodities, and at the other end, highly differentiated products (real or perceived). The more differentiated or unique the product or service is, the less it will have to depend on direct price competition to acquire customers.

Take, for example, the Upper Canada Brewing Company, a small brewer of natural beers. They differentiate their product based on purity and natural processes and in this way manage to avoid head-on competition with the large breweries. Sleeman Breweries, another small brewer, have developed a unique bottle to differentiate their product. Their point of difference is in the packaging. Successful differentiation increases both profit and customer loyalty.

Steven Schnaars suggests that products be differentiated in terms of tangible or intangible characteristics. Figure 3-3 demonstrates Schnaars matrix for conceptualizing product differentiation. Differentiation strategies are more forceful when customers’ wants and needs are wide-ranging and are therefore difficult to satisfy with commodity products or services. Smaller firms gain immensely if they can produce a product or service that is different, meets the buyers’ needs, and provides additional value.

The benefits of successful differentiation are:

- Customer loyalty increases.
- Increase in sales.
- Increase in profits.
- Protects against substitutes.
- Insulation from price competition.
- Sets the product/service apart.
- Provides a higher value to customers.
- Mitigates the power of large companies.
- Creates a great platform for communications.
- Provides an advantage in the market place.
- Fits with consumers’ desire for different and unique products or services. Consumers are always seeking variety.
- Increases the customers’ switching cost.

As with segmentation, the extra value provided to the buyers must be delivered at a cost that allows a profit. Differentiation for the sake of differentiation serves no purpose and can have a negative outcome if the customers do not need or want a differentiated product, or if they are not willing to pay for the uniqueness of the product or service.

**Value**
At the root of differentiation is the creation of value. There are many ways to deliver value. Figure 3-4 shows a map of the value framework.
As the map clearly demonstrates, there are many positions of value. The ideal position, although difficult to achieve, is providing superior value at a low price. Meaningful values to customers can be created in many ways. The principal ones are:

• High quality product or service
• High quality service
• Innovation or technology
• Availability
• Low price
• Array of product or service
• Unconditional guarantee

A good illustration of a smaller firm using positioning to create value is the Pharmaceutical Packaging Company. They manufacture for the pharmaceutical industry on a contract basis. They positioned themselves as the best and most up to date manufacturing facility, and on the capacity to do small runs very quickly. This positioning provided extra value to their customers.

**Pitfalls**

Porter has suggested a number of pitfalls in differentiation. They are:

• Trying to differentiate on something that may be unique but has little value for the customer.
• Too much differentiation so that the price becomes too high.
• Not understanding what the customer sees as value.

**Product Positioning**

Product differentiation and product positioning are related; positioning tries to develop a position in the buyer’s mind. Product positioning determines the space of the product or service on a map filled with competitors. Positioning has been described as “the act of designing the company’s image and value offer so that the segment’s customers understand and appreciate what the company stands for in relation to its competitors.” We are now adding some new dimensions such as direction, space and where we stand in relation to others in our chosen market segment.

The best way to identify position is via a positioning map. By using what customers value, we can position our product or service. Figure 3-5 shows a positioning map for a product where the most valuable characteristics are service level and price.

A positioning map is often derived from research.
of customer perceptions and can be used for both products and services or organizations. An organization, for example, may use variables such as image, size, and cost as variables on the axis. A positioning strategy recognizes how customers see the brand, product, service or organization. It is a pictorial representation of the spatial dimension of the market and the relative position of the product or service in the market.

**Repositioning**

Because of the dynamic nature of markets, or to move to an unoccupied space, or to move to a space that is more appropriate for future growth, organizations often change market position.

For example, Fairweather Inc., a fashion retailer, was focussed on the teenage market. When research indicated that the stores were attracting women in their mid-20’s as well as teenagers, the president decided to reposition the retailer to focus on an older and higher income customer.

Once the new position was adopted, the steps the retailer took to reposition were:

1. Staff were trained to ensure that everyone understood the new position and the implication of the repositioning.

2. An aggressive marketing and public relations campaign was undertaken so that the consumer was made aware of the new position.

**Endnotes**

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