Niche marketing: an analysis

ASSIGN BUSTER

MARKETING STRATEGY MODELS, TOOLS & TECHNIQUES

Emerging Strategy – Niche Marketing:

I. Definition – Define the Concept:

Niche Marketing is a narrow marketing strategy, which is marketing product or service in a small segment of a market that is not being voluntarily served by the main stream product or service providers; marketers usually classify niches by dividing a segment into sub-segments and seek the distinctive mix of benefits within this customer group.

The customers in the niche market have a distinctive set of needs; they are willing to pay a premium price to the firm that could best satisfies their needs; the niche is not likely to frontal attract other competitors; the nicher gains certain economies through specialization; and the niche has size, profit, and growth potential. Whereas segments are rather large and normally attract several competitors, niches are fairly small and normally attract only one or two. (Kotler, R 1984)

II. Objectives behind using the Concept:

Niche Marketing Strategy is focusing on a limited sector of the total market, make particular sense for small and medium-sized companies operating in markets that are dominated by larger operators. The strategies are especially suitable where there are distinct, profitable, but underserved pockets within the total market and where the company has an existing, or can create a new, differential advantage in serving that pocket. (Porter 1985)

A Niche Marketing Strategy focuses on those pockets of demand in the industry which demand is stable or delinking less rapidly than for the industry as a whole. The strategy makes sense when the company has some

unique strength related to those niches in which demand remains relatively strong. (Miller, D 1986) As an example Coca-Cola Tarumi, one of Coca-Cola's biggest challenges in Japan is finding new products that appeal to older customers. It has thus introduced drinks that claim to boost energy or have health benefits, and possibly fetch a higher price. Coca-Cola launched Tarumi, a low-calorie beverage which claims to " balance mind and body" through its blend of six minerals. Tarumi is Japanese for " sag unhealthily", a condition the drink intends to reverse. Another drink launched is Boco, billed as fat- and cholesterol-free.

III. Explain the Steps in putting into Practice:

To practice a Niche Marketing Strategy, marketers need to pursue the following steps:

1. Analyze the existing market and recognizing niche marketing opportunities

2. Identify neglected or underserved market segments

3. Select the niche where company has a competitive advantage

4. Develop the marketing program to meet the needs of this niche

In analyze the existing market, company need to study the mass market condition by using the traditional market tools and techniques such as PESTEL, SWOT and Porter five forces model etc, and find out the product or service customers need but that is difficult to obtain in mass market.

When the company understands the existing market condition recognizing niche marketing opportunities, company should ask themselves several questions to identify the new market, 1. What is the current product that existing marketers provides? 2. Where is the neglected market segment and, will them be company’s customer? If yes, move to the next step. If no, rethink about this question. 3. What do the customers want and what could be the new product provides? 4. How does the company maximize the present resource and expertise?

After identify the neglect market segment, company need to evaluate their strengths and choose the battleground where advantaged for them. The battleground, or niches on which to concentrate, should be chosen by consideration of both mass market and niche market attractiveness and current or potential strength of the company in serving that market. (Porter 1985)

Lastly, it is necessary to focus activities on the selected targets and not allow the company blindly to pursue any potential customer. Company focus effort stick to the selected target by enhances the following ability: 1. Ability to segment the market creatively, focusing their activities only in areas where they had particular strengths that were especially valued. 2. Efficient use of Research & Development resource, because R&D resource are necessarily more limited then among major competitors, they should be used where they can be more effective and concentrate on existing technologies improvements that provide more values to customers. 3. Thinking small approach to business increase the emphasis on operating more efficiently

and strengthen more defensible position rather than chasing growth at all costs. (Porter 1985)

IV. Strengths & Weaknesses:

Strengths

Weaknesses

Ø The nicher is protected from competitors to the extent it can provide a product or service they cannot.

Ø The nicher has power over buyers because they cannot get the same thing from anyone else.

Ø The threat of new entrants is limited by customer loyalty to the focuser.

Ø Customer loyalty lessens the threat from substitutes.

Ø The nicher stays close to its customers and their changing needs.

Ø Increase in cost of inputs could be passed on to customers

Ø The nicher is at a disadvantage with regard to powerful suppliers because it buys in small volume (but it may be able to pass costs along to loyal customers).

Ø Because of low volume, nicher may have higher costs than a low-cost company.

Ø The nicher may disappear because of technological change or changes in customers’ tastes.

Ø Nichers will compete for a narrow market.

V. Illustrate with application examples/case studies:

Facebook – Many large networking companies such as Yahoo, Google have lost the pieces of their market to nicher. This is happening in the online social networking market, where Facebook are becoming mature service provider.

A drop in traffic numbers has made headlines for social networking sites, Facebook. This site with 12 million users, rely on advertising revenue to survive and risk losing out by trying to be all things to all people. A host of upstart social networking nicher hopes to capitalize on the tendency of individuals to want to congregate with others who share their own particular passions, however arcane. For instance, there is now 1up. com, which is a content heavy social site where online gaming fanatics can trade tips, stories, opinions and gossip. Gather. com is a social network for the so-called NPR crowd: people in the prime of their career who, unlike students have disposable income to burn. Then there is Dogster, an ultra-niche site that has 3, 500 active communities for dog owners and is already attracting scads of advertisers. (Kotler, R & Keller 2009)

Emerging Strategy – Strategic Alliances:

I. Definition – Define the Concept:

Strategic alliances are cooperative agreements between companies they may also be competitors. This section deals specifically with strategic alliances between companies form different regions. Strategic alliances are companies between short-term pure market transactions and long-term complete ownership solutions.

Strategic alliances run the range from short-term contractual alliances to long-term equity-based alliances. Contractual alliances include the activities such as co-marketing, research & development contracts, turnkey project, strategic suppliers, strategic distributors and licensing. Equity-based alliances are the higher level of commitment, which include strategic investment, cross shareholding and joint venture. (Mike W. Peng 2006)

II. Objectives behind using the Concept:

The objectives of strategic alliances are that 1. Two or more companies unite to pursue a set of agreed goals, but remain independent even though in an alliance; 2. The alliance members share the benefits of the alliance and control over the assigned tasks; 3. The firms in the alliance want to contribute on a continuing basis to one or more strategic fields.

The potential drivers that lead organizations towards collaboration in delivering their strategies to market are such as: 1. Market complexity and high degree of risk are frequently occur in the modern market. 2. The costs of developing internal skills and capabilities needed to compete effectively may be beyond the resources of a single company, or simply more cheaply available through alliances with specialized partners globally or in the technology driven market. 3. To reduce the supply chain costs by continuous replenishment systems and cross-docking to reduce and eliminate stocks in the marketing channel. (Piercy 2002) (David W. Cravens 1997)

III. Explain the Steps in putting into Practice:

In addition, there is a set of strategic consideration from three strategic perspectives on strategic alliances to underlying each decision to engage with, such as industry-based considerations, resource-based considerations

and institution-based considerations, the following shows the factors need to consider with:

Comprehensive Model of Strategic Alliances

Industry-based considerations

Resource-based considerations

Institution-based considerations

Ø Collaboration among rivals

Ø Entry barriers scaled by alliances

Ø Upstream/ downstream vertical alliances with suppliers or buyers

Ø Alliances to provide substitute products or service

Ø Value-added must outweigh costs

Ø Rarity of relational capabilities and desirable partners

Ø Limitability of firm-specific and relationship-specific capabilities

Ø Organization of alliance activities at the firm and relationship levels

Ø Formal regulatory and collusion concerns

Ø Informal normative and social pressures

Ø Informal cognitive and internalized beliefs in value of collaboration

After analysis above factors, strategic alliances are forming by three stage managerial decisions, which include decision for establishment, decision for strategic alliances mode and positioning the relationship of strategic partners.

In the first stage, company need to concern about a strategic choice, whether to form cooperative interfirm relationship or to rely on pure market transactions or merger & acquisition to grow the firm. To grow by pursuing pure market transactions, the firm must be able to independently confront competitive challenges. On the other hand, alliances may be a flexible intermediate solution to solve strategic growth problems. The next step is: How to find strategic partners? The First way is that managers who translate their interpersonal ties with executives at other firms into alliance relationships. The second way to find partners is to rely on successful previous business dealings. The third way, to find partners is through formal, systematic scanning around the world to identify candidates that present both strategic fit and organizational fit. (Strategic fit refer to skills and resources that the focal firm cannot easily. Organizational fit refer to the organization features, such as organizational goals, experiences and facility etc.)

In the second stage, companies need to choice the alliance mode between contract-based alliance and equity-based alliance. The key concern is distinctive competencies, which include company’s resources and capabilities that are shared, and the marketing activities and transactions of both counterparties more likely will prefer associate with.

In the third stage is managing and positioning the relationship of strategic alliance, each company has multiple interfirm relationships, which makes it important to manage the relationship as a corporate portfolio. Therefore, design an interfirm relationship by attempting to optimize each individual alliance and manage the proportion of benefit within the strategic alliance is important for positioning the relationship of strategic alliance. However, to manage alliance effectively, companies need to stick to Bensimon’s (1999) executive guidelines, 1. Assimilate the competencies of your partner; 2. Think of your partner as today’s ally and tomorrow’s competitor; 3. Share power and resources, but share information wisely; and 4. Structure your alliance carefully.

IV. Strengths & Weaknesses:

Advantages

Disadvantages

Ø Reduce costs, risks and uncertainties

Ø Gain access to complementary assets and capabilities

Ø Opportunities to learn from partners

Ø Possibilities to use alliances and networks as real options

Ø Politically Acceptable

Ø Ability to tap into the best locations for certain innovations at low costs

Ø Ability to research more customers

Ø Possibilities to choosing the wrong partners

Ø Costs of negotiation and coordination

Ø Possibilities of partner opportunism

Ø Risk of helping nurture competitors and race their learning opportunities

Ø May lose core innovation capabilities

Ø Limited coordination

Ø Divergent goals and interests of partners

V. Illustrate with application examples/case studies:

Microsoft and HP – An alliance between Hewlett-Packard and Microsoft, under which HP would host Microsoft's Exchange messaging and collaboration software, was foundering because of clashes sparked by differences in the two companies' business models, cultures, and expertise. A systematic attempt to document the partners' differing perceptions of themselves and each other led to acknowledgment of both sides' strengths and to strategies that played to them. (Jonathan Hughes & Jeff Weiss 2007 Harvard Business Review)

How HP perceived itself

How Microsoft perceived HP

Ø Collaborative partnering mind-set – looks for the greater good

Ø Reinventing – trying to get more focused under new CEO's leadership

Ø Disciplined – takes a long-term, mature approach to evaluating market opportunities

Ø Win-win partnering – actively seeks the other company's wins

Ø Flexible – looks for creative deals

Ø A non-player in services

Ø Falling behind its competitors

Ø Slow, bureaucratic – a laggard

Ø Unable to execute consistently and predictably

Ø Conflicted sales strategies in the field

How Microsoft perceived itself

How HP perceived Microsoft

Ø Competitive, fast-moving, and entrepreneurial

Ø " Our products are changing the world in profoundly positive ways"

Ø Center of the new economy

Ø Focuses on objectives and assumes others do the same

Ø Misunderstood: The world doesn't't realize what positive things the company does for everyone

Ø Brings partners into deals, expecting they will be grateful and go get the business without continued hand-holding

Ø Excessively competitive and confrontational

Ø Controlling, paranoid, and greedy

Ø “ Win–don’t care” partnering mind-set

Ø Focused only on the deal

Ø Packaged-software mentality – commoditize everything, even partnering

Ø Doesn’t’t get it – doesn’t’t know what it takes to sell professional services to an enterprise customer

(Jonathan Hughes & Jeff Weiss 2007 Harvard Business Review)

Through the joint exploration of differences, a more constructive and valuable view emerged:

HP’s Strengths

Microsoft’s Strengths

Ø General expertise related to complex-solution selling to enterprise customers

Ø Tends to focus on long-term objectives and opportunities

Ø Good at minimizing risk in complex situations through careful analysis

Ø In difficult circumstances, likely to find the creative solution that others might miss

Ø Good at understanding and focusing on customer needs and building close, durable relationships

Ø Technical and product knowledge about Exchange, which is essential to successful enterprise solution sales

Ø Disciplined focus on short-term objectives

Ø Good at capitalizing on opportunities by making decisions quickly

Ø Unlikely to waste time and effort when the “ standard” answer or solution provides the optimal balance of performance and value

Ø Good at identifying and responding to competitive threats

(Jonathan Hughes & Jeff Weiss 2007 Harvard Business Review)

Models, Tools & Techniques – Porter’s Five Forces

I. Definition – Define the Concept:

In opening a new business, industry analysis is always the most important task to understand the profitability of the industry. Also, the first job of the strategist to set up strategies is to understand and cope with competition. (Porter 2008, p. 3) The five forces analysis by Michael Porter (1979) is a useful tool to evaluate and understanding the intensity of competition within the industry. “ Competition for profits goes beyond established industry rivals to include four other competitive forces as well: customers, suppliers, potential entrants, and substitute products.” (Porter 2008, p. 3) By analyzing each of the five forces, and looking them in a whole picture, we can shape the structure of the industry, and hence, to justify the profitability and show the attractiveness of the industry. This essay is going to discuss the Porter Five Forces analysis and the implication to marketing strategy.

(Michael. E. Porter, Harvard Business Review, Jan 2008)

II. Objectives behind using the Concept:

Threat of New Entrants

New entrant means that there are new competitors joining in the industry which would probably bring new capacity and acquiring the market shares. Hence, the competition of the industry becomes higher. Hooley (2008) mentioned that the characteristics of high threat of new entrants are: " costs of entry are low, existing or new distribution channels are open to use, differentiation is low, and there are gaps in the market." (Hooley et al, 2008, p. 75)

Threat of Substitute Product or Service

A substitute product means that the product has the same or similar function with other product but in different product category. For example, burger and pizza would both solve the problem of hungry, but they are not in the same category, plasticssubstitute for aluminium. Substitute can be classified as direct or indirect,

Direct: Product that performs the same function for the customer, Indirect: product the customer chooses between to spend discretionary income.

Bargaining Power of Buyers

The power of buyers describes the effect that customer have on the profitability in a business. The transaction between the sellers and the buyer creates value for both parties. The bargaining power of customers is powerful when the buyer purchases larger proportion of seller's products or there is a small negotiating power when there are lots of similar products in the market. (Porter 2008)

Bargaining Power of Suppliers

Every business needs inputs, labors, raw materials and services to operate their business, the cost of the input can have a significant effect on their profitability. When the bargaining powers of suppliers are greater than buyers, then they can set higher prices for their products and/or restrict products or services to other competitors. Supplier is powerful when the market is dominated by a few suppliers rather than an incomplete source of supply, there are no substitutes for the particular input, purchasing industry buys only has a small portion of the supplier's goods and suppliers are able to integrate forward and compete directly with present customers.

Rivalry among Existing Firms

It is more costly for individual businesses to achieve sales and profit objectives as an intensity rises. The degree to which rivalry drives down an industry's profit potential depends on the intensity with companies compete and in the basis on which they compete. High competitive pressure results in pressure on price, intensity of rivalry is related to the number of competitors, rate of industry growth, produce or service characteristics, amount of fixed costs, the capacity, height of exit barriers and diversity of rivals. It is hard to avoid poaching business when competitors are numerous or are roughly equal in size and power. (Porter 2008)

III. Explain the Steps in putting into Practice:

Reducing the Threat of New Entrants

The threat of new entrants has increased dramatically in the past decade; this is mainly due to globalization. Most common method reducing the threat of new entrants would be creating brand image. By creating brand,

customers would be more like to stay with the product and therefore the treat is reduced. For example: Apple inc. has created the brand image for themselves in order to retain and gain market shares.

Reducing the Threat of Substitutes Product or Service

Due to the improvement of new technologies and techniques on production, threats of substitutes are a big concern for companies, because it could greatly reduce the product life cycle. Companies could use legal action to reduce the threats of substitutes.

Reducing the Bargaining Power of Buyers

In most company, the customers are often not the end users. They could be the wholesaler or retailer, reducing the power of customers could increase the profitability and reducing the price of the product when I reach its end user. Cutting off powerful intermediaries is one of the most common ways used by companies, example: Dell is selling its products directly to its end users.

Reducing the Bargaining Power of Suppliers

Suppliers of the company have the power of influencing the production cost and profitability. There are all sorts of methods for companies to reduce the bargaining power of supplier. For example, the company could choose to buy over a supplier. By doing so, company could reduce its production cost in long term, but the negative effect is that buying over a supplier would cost a great amount of company resource.

Reducing the Rivalry among Existing Firms

Less competition within the company's target market means higher chance for the company to success, and increase profitability, therefore reducing competitive rivalry would be important to business. Company needs to avoid price competition, try to differentiate their products or even consider buy out competition in order to help them grow.

IV. Strengths & Weaknesses:

Strengths

Weaknesses

Ø Positioning the company

Ø Exploiting the industry changes

Ø Shaping industry structure

Ø Defining the industry

Ø Define the industry too broadly or too narrow

Ø Assume that the fast growing industry are always attractive

Ø Does not analysis how the government policy affects the five forces

Ø Creating a list of problems rather than analysing them

Ø Using statics analysis that ignores industries trends

V. Illustrate with application examples/case studies:

Coles and Woolworth (C&W) entering into the petrol industry, which caused the big shift in that particular market, like the intensity of the rivalry is

increasing in the petrol market, as C&W offering 4 cents discount per liter at Shell and Caltex for every purchase in their retail stores, most customers are preferred to go and fill up their car in those two companies outlet rather than go to BP or United.

From Shell and Caltex perspectives, working with C&W reducing the threat of substitution, decrease the bargaining power of buyer—consumer does not have any other choice rather than pick Shell or Caltax, thus lead them to be more profitable than the other petroleum companies, these two companies can also reduce the supplier bargaining power as well, as they are the most prefer company in Australia, as Coles and Woolworth controlled 75% of the retail market in Australia

Models, Tools & Techniques – Value Chain Analysis

I. Definition – Define the Concept: