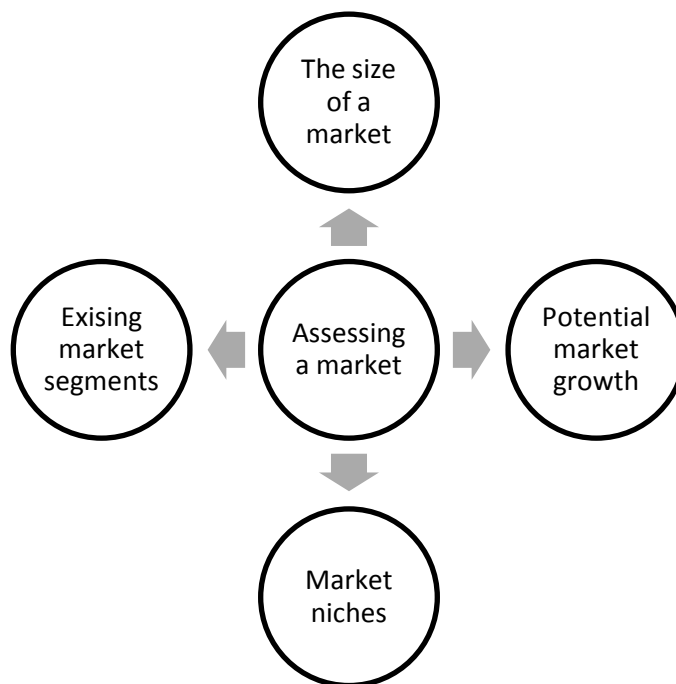# Topic 3: Lesson 2

Is there a market for the business idea?

Learning objectives:

1. Market size
2. Potential market growth
3. Market segmentation analysis
4. Market niches

When a business sets, it needs to see if its business idea is profitable. In order to do so, it must consider the above 4 points.

1. Market size

The market size depends on a variety of things, but essentially, the potential customers. Thus:

- A Large market means a lot of customers, meaning greater chance of making profit.
- A small market means few customers, meaning less chance of making a profit.

Competitors

However there are many other things to consider when considering market size.

- Such as the number of competitors, the greater, the less the chance of making a profit.
    - There are now lots of companies that are all selling similar product, and thus trying to make a profitable business in a competitive market will be hard as it will require rigorous marketing.
   - Essentially, the more the competitors, the less likely the business will be able to gain a large market share.

Calculating market share

$$Market\ Share\ (\%) = \frac{Value\ of\ product\ sales}{Value\ of\ market\ sales} \times 100$$

Example: Smart Phone sales of 2008

Producer	Value of Sales
Nokia	14,588,600
RIM	4,311,814
Apple	1,725,300
Sharp	1,323,800
Fujitsu	1,317,500
Others	8,982,890
Total	32,249,904

Market share
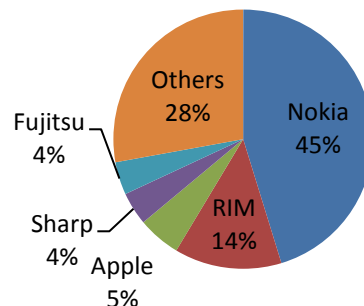
2. Potential market growth

A firm in order to increase its profit will want an increasing consumer base. Ideally, it will want a growing market.

- Market growth is essentially the increase in the size of a market for a particular product
- If a market is shrinking, then the market growth will be negative

The Balance between market share and growth

- A business will want a big share of the market, as well as a growing one.
  - A big share means a lot of customers, so more $$.
  - Growing means more chances of expansion, and business growth leads to increase in net profit as well as many other advantages such as economies of scale, and more prestige for the owners.
- But this is not always possible:

> If Nestlé Rowntree had sales of £0.85 billion in the UK confectionery market where sales totalled £4.69 billion, they would have a market share of 18.12%

> If in the following year Nestlé Rowntree had sales of £0.78 billion in the UK confectionery market where sales totalled £4.88 billion, they would have had a market share of 15.98%

> This means that Nestlé Rowntree's market share decreased by 2.14% in a market that grew by 4.01%

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Figure 1: Thanks to A. Murray for Case study

3. Market Segmentation (U14 page 66 DH)

For convenience and easier management, a market is broken down into smaller groups called segments. These segments are made according to similarities. The main purpose of market segmentation is the concentration of marketing energy on that particular segment to gain a competitive advantage in that segment. For example, buying books could be separated in many ways including:

- **Age**: Children will go for primary education books, whereas children in middle schools may prefer fiction, or will go for more mature books.
- **Gender**: Girls may prefer love novels, whereas Boys may go for science fiction.

Why segment a market?

- Adapting to the needs of different segments should allow the business should allow businesses to vary its products to certain needs and thus sell more and thus make more profit.
  - Better understanding of the consumer behavior.
- May allow business to target particular groups using particular products
  - E.g. Toothbrush companies like Closeup©, Signal© and Colgate© can target people according to age group. For example: Colgate targeted kids with Colgate pop-stars toothpaste. It has features like a stylish cool bottle that kids will like and with extra breath strips.
  - Signal did the same, but they also segmented the market according to different tastes. The developed herbal toothpaste for those who prefer natural products.

Figure 2: Colgate POP STARS© toothpaste for kids

Figure 3: Signal Herbal toothpaste: Designed for those who prefer natural products, thus a behavioral segment.

- It can prevent products being promoted to the wrong people, reducing the wastage of marketing resources and losses.
- Consumers may feel that they are better targeted and cared for by the company, thus developing brand loyalty.

Types of Segmentation

1. **Geographic Segmentation:**
   - Basically segmenting people according to **where they live**.
   - They do this in order to **attack a specific market area**.
     - Segmentation is often done according to customers there or the **nature of the area**, e.g. rural, urban, suburban, and semi-rural.
     - It can also be in terms of **Spending levels**
     - **Income levels**
     - **Employment levels**
     - **Buying habits**
   - This is often done when the market is **large** and **diverse**.
     - Thus buying patterns are influenced by regions
   - Examples:
     - Nestle sells Maggi© in South Asia but Crosse & Blackwell© in places like Europe.
     - Expensive restaurants may focus on areas of high income i.e. posh areas.
     - A chainsaw company may market their products only to areas with forests.

Using market segmentation

- Graphs like these could help businesses decide on what type of products to sell.
  - Areas of high unemployment will not be able to pay very much, and thus fewer consumers to high end products.
  - Areas of Low unemployment mean people have more money and are likely to spend.
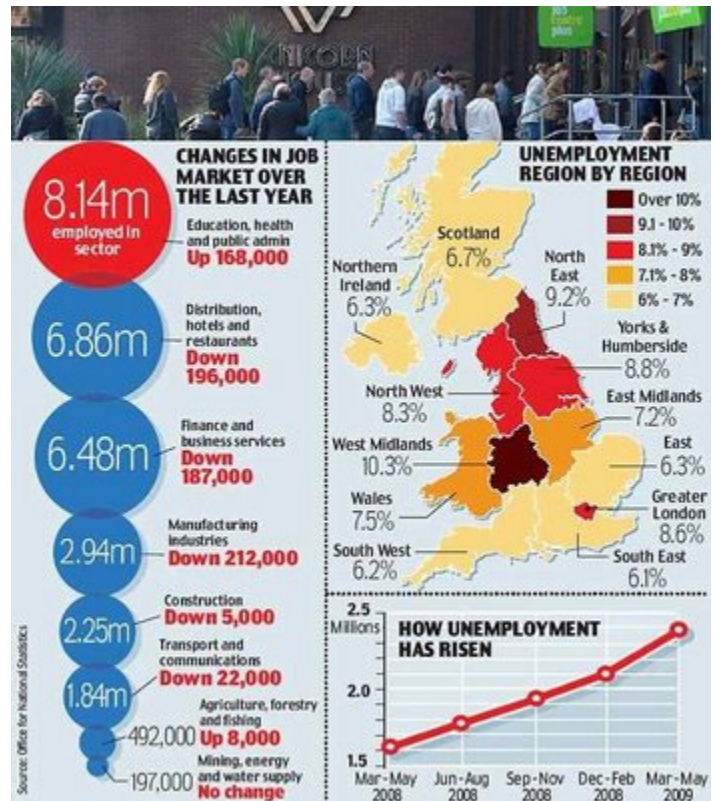

Figure 4: Unemployment from March 2008 to May 2009

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2. **Demographic Segmentation**

Demography is the study of population. There are three main ways to do this:

- **Age**
    - People of different ages buy different products
- **Gender**
    - Men and Women behave differently and thus buy different things
    - Women may prefer small portable laptops to carry in their bags laptops rather than high performance ones to play games in.
- **Income**
    - People with different disposable levels will buy different products, even within the same brand.
    - That's why car manufacturers produce cars with different models, like Toyota produces YARIS© for people with small disposable income and CAMRY© for people with high disposable income.

3. **Psychographic segmentation** (socio-economic groups)
    - Dividing the market according to their lifestyles, social class and personality.

Social Grade	Social Status	Occupation of the Head of the household	% of population
A	Upper Middle	Higher Managerial, administrative or professional. For example: **Doctors**, **Lawyers** and **Company Director (people in the board of directors)**. Basically people who are highly educated.	3
B	Middle	Intermediate managerial, administrative or professional. For example: **Teachers**, **nurses** and **managers**. People with education, but in a certain field.	14
C1	Lower Middle	Supervisors or clerical, junior managerial, administrative or professional. For example: **Shop assistants**, **Clerks** and **police constables**. People who have training in practical fields or people who have very little education.	27
C2	Skilled Working	Skilled manual workers such as **carpenters**, **cooks** and **train drivers**. People with Education in practical fields, or have practical knowledge on how carry out a manual task, i.e. they are skilled.	25
D	Working	Semi skilled and unskilled workers such as **store keepers**. People with no education and no or very little training.	19
E	The poorest in society	**Pensioners**, **Widows**, **casual or lower grade workers.**	12

- We have to be careful when talking about socioeconomic groups.
- It refers to the **head of the household**, and **not to the level of income**.
- There may be very rich pensioners for example!!
- These are assumptions typical to the lifestyles of the groups.
- The business is trying to generalize, because typically E group people will have less money than Group C or B.
- This allows business to target the right market for their product.
- Accurate advertising may cause less to be spent on advertising, reducing cost, thus, the firms may be able to provide the product at lesser price than before. Consequently, firms will likely have higher sales and thus more profit.
- For example: Teachers (B) will be targeted for teaching material, or board marker, or even e-learning material.
- The skilled workers maybe targeted for special equipment like a new drilling machine.

4. **Behaviouristic Segmentation**

Essentially, the behavior and the preference of a person. This may include:

- What people buy
- How often they buy
- How loyal the consumers are to their brands

The introduction of loyalty cards has helped this lot. The retail shops can now see the buying behavior of a customer.

Figure 5: Loyalty Cards

An example of behaviouristic segmentation would be the **frequent buyers segment**.

4. Market Niches

- Business **targets** product at a **particular segment of a market**
- This means the **market will be small**
- For example:
  - o Sports Car manufacturers, high end and require specialist parts. Sold to upper-class people, with loads of money.
  - o Pasteurized Goat milk, for consumers allergic to normal Cow's milk
  - o Organic Vegetables, for consumers who want vegetables without any pesticides

Advantages	Disadvantages
Advantageous for small firms that struggle to compete in large markets	There are fewer potential customers
The needs of those customers who have been ignored by larger firms can now be cared for, this will develop brand loyalty	Profits must me generated from fewer sales, so unit price will be high
Firms can react quickly to the changes in the market as mass production is likely not involved as it is a small market	There is always a chance that the niche may disappear or be targeted by bigger competitors

More advantages of Niche Marketing on: Advantages of Niche Marketing