

Niche Marketing Strategy Framework for SMEs: A Conceptual Framework

Fazal Akbar, Dr Abdul Razak Bin Omar, Fazli Wadood and Rosmaini Bin Tasmin

fazal.akbar22@gmail.com, abdulrazak@uthm.edu.my, wadoodam@yahoo.com, rosmaini@uthm.edu.my
Faculty of Technology Management and Business, University Tun Hussein Onn Malaysia, 86400, Johor.

Abstract: As the research shows that small and medium enterprises are comprising of more than 90% of the business around the world. In the developing countries SMEs contribute to the GDP, poverty alleviation, creating jobs, and have many other benefits which are crucial. According to their significance to country side, human side, SMEs needs to be successful to improve the both sides. The niche marketing strategy is one of the most successful strategy applied by different companies around the world. And those who are using the strategy are enjoying the success of their organizations. For SMEs the niche marketing strategy is beneficial because the owner or manger can build a good relation with the consumers and suppliers. A good relationship is necessary for sale purpose and for reputation building.

Key Words: SMEs, Niche Marketing strategy, Business Success,



1. Introduction

Globally Small and Medium Enterprises (SMEs) face various challenges wherein competition is mentioned as one of the fundamental challenges (Rosli & Sidek, 2013; Muhammad, Abro, Memon, Irfanullah & Arshdi, 2011). According to (Khan & Muhammad, 2012; Sherazi *et al.*, 2013) this segment of the economy is considered crucial to nation's economy as it creates new jobs, reduces unemployment and creates a new business that contributes to gross domestic product (GDP) of a country. SMEs are known as the spine of the economy. Therefore, it's required more attention to enhance their capabilities to be a part of the global competition (Akmal *et al.*, 2012; Hilmi *et al.*, 2011; Wadood, Shamsuddin, & Abdullah, 2013). SMEs contribute to the economic development of the individual nation, encourage and build confidence in investment among the different economies of the region (Nasir, 2013). The small business makes a significant contribution to regional income, creating jobs, producing essential goods and services, promoting the development of rural economies (Akmal *et al.*, 2012). According to (Wadood *et al.*, 2013) due to its significant contribution in recent years SMEs become the focus of policy-makers. Hence, SMEs need to formalize their structure and system to become more competitive and enhance their capacity regarding market changes (Terziovski, 2010).

According to OECD (1997), SMEs are a valuable source of employment and future growth prospects for many countries across the globe.

It is evident that SMEs account for nearly 95 to 99% of the business population all over the world (Wadood, Shamsuddin, & Abdullah, 2014). However, these include both developed and developing countries. According to (Wadood *et al.*, n.d.) In UK SMEs represent 99% of the whole business population. In a similar vein, SMEs in China also represent 99% of the total firms which contribute to about 70% of overall employment (Tang, Wang, & Zhang, 2007).

Considering developing countries like Malaysia, SMEs account for more than 96.1% of the total number of business establishments. SMEs contributed 32% towards Gross Domestic Product (GDP) in 2008. In the same way SMEs in Thailand represent 99.5%, which contributes 42.35% to GDP (Hafeez, Noor, Shariff, & Lazim, 2013; Hilmi & Ramayah, 2008)

Therefore, to be successful in today's hyper-competitive and over-advertised marketplace, firms need to identify and specify their potential market place. In this regard, Thilmany, (2012), stated that SMEs have a low budget for their marketing. Firms need to focus on their geographical identity to increase product quality. This latter approach, typically characterized by specialization, constricted markets, and long-term relationship, is often termed as niche market strategy Thilmany, (2012). Dalgic (1998) stated that niche marketers are applying one-to-one relationship marketing concepts. Dalgic (1998) further states that relationship marketing supports close links with clients and detailed information usage is becoming a marketing priority. Hence, it is crucial and essential for SMEs to be more focused on their target market and to identify their potential market to save marketing costs and be able to face the global challenge.

2. Literature Review

Niche marketing has been a way of life for the smaller and medium firms Linneman & Stanton (1992). Niche marketing has been recognized as a form of adaptive modification that can be originated at the firm level. In other words, niche is "*the situation in which a business's products or services can succeed by being sold to a particular kind or group of people*" (Merriam-Webster dictionary). The word niche brings to mind something small, something manageable. Companies favor to concentrate and settle in their production to the needs of narrow markets, and emphasizing the area, designation, and geographical distinctiveness to develop product quality (Hammervoll, Mora, & Toften, 2014). Once the of

one minded consumers have been recognized, it may be useful to name or tag them (called “Clustering”), clustering of consumers helps businesses to design an appropriate plan more targeted and efficient marketing activities (Thilmany, 2012).

Micromarketing, focused marketing, regional marketing, concentrated marketing and targeting marketing all are often used as synonyms for niche marketing (Dalgic & Leeuw, 1994). Even though some authors affirm that there is no clear and consistent definition for niche marketing, however, a number of attempts to capture this concept share similarities (Toften & Hammervoll, 2010; Cuthbert, 2011). There is broad agreement that it is closely related to market segmentation and is revealed in the literature as having a pull marketing approach- that first identifies the market and then develops a product for that market (Cuthbert, 2011). Niche marketing basically works with a concept of ‘Big fish in small pond’(Choudhary, 2014a).

According to Thilmany, (2012) niche markets consist of groups of consumers (market segments) within the larger marketplace with similar demographic, buying behavior, and/or lifestyle characteristics. He further explained that even consumers with the same buying behavior may have differing in motivations (which are essential elements to know for marketing and promotions). Shani & Chalasani (1992) defined niche marketing, is the process of carving out a small part of the market whose needs are not fulfilled. By specializing in market, customers, product or marketing mix lines a firm can match the unique needs of the niche or that group. Dalgic & Leeuw (1994) consider a niche market to be a small market consisting of an individual customers or a small group of customers with similar characteristics and defined niche marketing as positioning into small, profitable homogenous market segment that have been ignored or neglected by others. Amubode (2009) stated that focus on niche marketing is addressing a need for a product or services

that is not being addressed or ignored by mainstream providers. Parrish (2010) defines the niche marketing as focusing on a specialized consumer segment or market. Toften & Hammervoll (2009) writes in the paper with title "Niche firms and marketing strategy," niche marketing is generally known as focused marketing strategies, consisting of a few customers and competitors, where the concept of firm specialization, product differentiation, customer focus and relationship marketing are frequently applied.

Although it seems challenging to agree on a single specified definition of niche marketing, the following characteristics may be helpful for knowing niche activities:

- Thinking and acting small by offering small production volumes, focusing on a few customers and avoiding market with many competitors or dominant competitor (Hezar *et al.*, 2006)
- Building long-term and strong relationship (Dalgic & Leeuw, 1994)
- Focusing on customer needs (Dalgic & Leeuw, 1994)
- Treasure firm reputation and using word-of-mouth references (Dalgic & Leeuw, 1994)
- Applying specialization and differentiation (Dalgic & Leeuw, 1994; Kotler, 1991)
- Charging a premium price (Dalgic & Leeuw, 1994)

Schaefer (2014) stated that in general consumers are assumed to prefer a niche product if it satisfies their need better than a mainstream product at any acceptable price. What starts as a relatively small niche market can offer growth potential for organization. Schaefer (2014) giving the example of, *Apple* has overtaken the market what previously was a niche market for the tablet computers with its *iPad* and successfully grown into a mass market.

Niche marketing is put advanced by philosophers and practitioners alike as a potential strategy for success for small producers, by differentiating products and aiming particular

consumers groups; small producers can take benefit of market opportunities that larger companies may be unwilling or unable/neglected to satisfy (Tamagnini & Tregear, 1998).Dalgic(1998) stated that for companies to survive and thrive, they must find aniche market that have: sufficient size to be profitable, no/limited competition, growth potential, sufficient purchasing ability of customers, and unfulfilled needs (Dalgic, 1998).Linneman & Stanton(1992) conducted a survey of 1000 Fortune firms, where response rate is more than 75 percent. All the Fortune firms have started serving smaller segment (Niche market) for at least some of their products and services. As stated in (Linneman & Stanton, 1992) that the Strategic Planning Institute has investigated hundreds of business units from different types of firms. It reported that the return on investment from smaller markets averaged 27 percent, while that from the larger market was only 21 percent.And the companies in US have started looking niche market (Niche marketing approach).Smaller markets can mean bigger profits (Linneman & Stanton, 1992).In addition, Noy,(2010); Echols & Tsai(2005)stated that adopting a niche marketing strategy will give the firms better than average profits because it works in a relatively recognized market.In the same vein, Echols & Tsai(2005) stated that the concept of niche marketing has attracted considerable attention in management research, and also the strategic management scholars have also identified the niche position as a way of competing in the marketplace (Echols & Tsai 2005). Therefore, proper identification target market and niche marketing strategies has a positive impact on firm overall success and competitiveness.

2.1 Niche Marketing Strategy

Linneman & Stanton (1992) stated that marketing in the age of diversity means “changing company structure as large corporations continue (to become niche marketers) to compete with a smaller niche player (who) expert at their markets. The authors further explain that think of niche marketing as the splitting of traditional markets into the smaller segment and then planning distinct marketing programs for each of these niches. (Choudhary, 2014b) Defined niche marketing strategy as ‘marketing approach designed for a particular service or good with features that plea to a particular minority market subgroup’. The literature recognizes niche marketing as primarily a defensive strategy that is more successful when the firm can implement a strategic initiative to reduce competition in the marketplace. Marketing strategy is the outcome of a company’s segmentation, targeting and positioning choices (STP process) at the level of the strategic business unit (Toften & Hammervoll, 2007). Gungaphul & Boolaky (2010) argue that niche marketing strategy is a product differentiation strategy from those offered by others seller and that cater for a smaller group of customers that is often referred to as a niche market. Shani & Chalasani (1992) refer to niche marketing strategy, the skills and resources required to exploit the niche.

Parrish (2003) stated that the main advantages of niche marketing are that the firm has a much smaller customer base, and, therefore, gets to know the customer very well, which makes the company much more able to satisfy the customer and in the process build loyalty and the potential for additional sales. (Hammervoll, Morra & Toftan, 2015) argue that implementation of niche marketing strategy have numerous benefits, including increased profits, competitiveness, high growth and market share.

According to Parrish (2003), a niche approach (strategy) contains three aspects: market, product, and strategy. Its shows the relationship between niche strategy and the

essential components of that strategy, it means that a company has niche product and then develop the niche market for that product.

A niche market approach focuses on the particular people who are included in that segment and finds products related to that niche. A niche product focuses on the particular good, and markets it to all segments, hoping that the product creates a niche. A niche strategy focuses on the company and how they implement a niche approach, of which a very limited amount of information is known.

Ilbery & Kneafsey (1999) argue that niche marketing is an opportunity for small producers (SMEs) and that opportunity can be implemented by the producers to build relatively stable networks with final consumers who are based on concepts of trust and traceability. Ilbery & Kneafsey (1999) assert that building networks of close association with the middlemen and the consumer would serve as a barrier to the entry of multinational mass marketing firms. These opportunities could be based upon market regulation (deregulation), spotted market inadequacies, internal strategic competencies, separation in market requirements or other changes in market demand and recognized focused or high-value market (Toften & Hammervoll, 2010). Dalgic (1998) argue that niche marketing strategy can be attained through focus on specific geographic area, specific buyer group and product line segmentation. The author further added that niche marketing strategy working for the following reasons: to avoid competition/confrontation with larger entrants, to dedicate its energy to serving a unique market, to boost on an opportunity, and survival. Most importantly, niche strategy is the knowledge of customer that drives the niche strategy; by understanding and serving the needs of niche market better than any other firms, awareness of the customers helps to safeguard the customers loyalty Allen (2006). Noy (2010) stated that niche marketing techniques (strategy) which are accessible to construct a product

space, realize the shape and supply of customers ideal opinion over such an area and, as a result, recognize likely opportunities for new or altered products.

Schaefer (2014) stated that the regular use of niche marketing, there is no widely accepted definition of what a niche market is, most of the existing definitions remain simple characterization, based on different characters that do not mostly apply to niche markets. However, investigation of these common classifications reveals two fundamental criteria that conclude these characteristics and thus a niche market, namely, specificity and relativity. Based on the aspect of specificity and relativity, a niche market is defined as *a segment of the market with product possessing a higher degree of relative specificity than the corresponding mass market product* (Schaefer, 2014).

Washington & Miller (2010) argue in their book with title "Nice Marketing" that niche marketing is a marketing strategy which focus towards a certain group of people for a particular product. Businesses use niche marketing by gearing their advertisements towards this certain niche hoping to attract the right group of people to their product or service.

2.1.1 Approaches to Niche Marketing Strategy

In the literature there are two different approaches associated with niche marketing strategy, these are bottom-up and top-down approaches (Dalgic, 1998; Shani & Chalasani, 1992). The earlier is a creative process termed as nichemanship by (Shani & Chalasani, 1992). Niche building is "...a process of carving out a small part of the market whose needs are not fulfilled. By specializing in market, customer, product or marketing mix lines, a company can match the unique needs" (Shani & Chalasani, 1992). In distinction, the final strategy, niche targeting perceives niche marketing as the last phase of segmentation, taking place in the following consecutive stages: segmentation, targeting, positioning and niching (Dalgic, 1998). This is said to be the top-down approach. The company starts from the top, first divide the market, choose one segment, involves in market pull or push strategy and focus on that specific group of people.

Figure 1: Conceptual Frame Work



3. Discussion

In the current global hyper competitive environment SMEs are given more attention towards the development of a nation's economy. In regard, SMEs should have something different to be sustain and maintain in their operation. Most of the developed nations are focusing and investing heavily on the development of SMEs. Thus, they have changed their ways of doing business and adopt niche marketing strategy. However, close and long-term relationship is important for marketing and sales purpose, and their reputation have proved to be important particularly towards attracting new customers. It is premise that, this relationship is built on trust and commitment; the importance is given to the word-of-mouth information to both firms and customers. Firms should focus more on the customer requirements in order to enable them respond faster to the dynamic changes in customer demand. Niche marketing is more helpful to deal with the existing and rapid changing mini markets. It is evident from the existing literature that companies like *The Body Shop*, *Johnson & Johnson*, *Philips*, *Apple iPad*, *Coca-Cola (Diet)*, *Oral-B*, and *American Express* adopted niche marketing strategies in identifying their target markets (Dalgic & Leeuw, 1994). It is argued in this paper for any SMEs to be successful, there is need to identify the missing link toward adopting the niche marketing strategy which invariably will save the marketing costs and be a part of global market.

4. Conclusion

Based on the findings of the literature, it is evident that a solid reputation in the mind of customers is crucial, and reputation can be built through niche marketing strategy. Therefore, for SMEs firms to be, successful there is a need to adopt the niche marketing strategy. In this view of the conceptual model is proposed as shown in figure 1 above. However, it is the future agenda of the authors to test the proposed model within the context of Malaysian furniture industry and to identify their success factors. It is apparent to note here that each country, region and geographic location has their own trend and best practices. Hence the need for SMEs to adopt niche marketing strategy in Malaysia and to examine the effectiveness of that strategy in Malaysia.

5. References

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