

## **The Niche Marketing Strategy Constructs (Elements) and its Characteristics - A Review of the Relevant Literature**

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### **ABSTRACT**

This paper is based on the premise that it is important to understand what niche marketing is; what its elements are, and also to know about the characteristics of niche marketing strategy. Essentials elements for a niche marketing strategy include segmentation, and positioning. The main purpose of the niche marketing is profitability, adherence to the marketing concept, relationship marketing practices, and building company reputation based on long term mutual benefit with its customers. Small firm must incorporate these ideas and become guerrilla marketers to compete successfully in markets dominated by much larger companies. To overcome these problems and potentially make effective use of niche marketing as a marketing strategy, the literature needs to advance a common definition, comprehensible elements, and most certainly common characteristics.

**Keywords:** Niche marketing, elements, characteristics, profitability, sustainability.

### **1. INTRODUCTION**

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 generally 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, 2014).

According to Thilmany(2012), niche markets consist of groups of consumers (market segments) within the larger marketplace who have similar demographic, buying behavior, and/or lifestyle characteristics, even consumers with the same buying behavior may have differing motivations (which are essentials 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 along 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 which 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 often understood as

focused marketing towards a limited market 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 explanatory for niche activities:

- Thinking and acting small by offering small production volumes, focusing on a few customers and avoiding market with many competitors or a dominant competitor (for example, 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); and
- Charging a premium price (Dalgic & Leeuw, 1994).

However niches might be comparatively small initially, they might grow to become large markets. If we merge the above definitions then the niche marketing definition is as niche marketing is an approach that applied to the segment of the market which needs, wants and requirements that are being addressed poorly or not at all by other firms, developing and delivering goods and services to best satisfy them. Concentrating all marketing efforts on a small but specific and well defined segment of the population they have similarities to some extent.

## 2. Elements of Niche Marketing:

In general marketing has two meaning; first, it is a business idea which states that the fundamental goal of the firm must be to meet the customer needs. Missing of this the firm cannot survive and succeed in competitive markets. The following idea of marketing is a dissimilar

group of activities centered on market segmentation and positioning decision (Lynn, 2011).

According to (Hooley, Saunders, & Piercy, 2004), the two main aspects to the niche marketing strategy are, first, choosing the pockets, segment or markets on which to concentrate and, the second one focusing effort exclusively on serving those targets.

In addition as stated previous, niche marketing is defined as “focusing on a small segment” (Doyle, 2002, as cited in Ali, 2011) or “positioning into small, profitable homogenous market segment which have been ignored or neglected by other” (Dalgic & Leeuw, 1994). According to these definitions, niche marketing can be containing two essential elements, as follows:

**Table 1.1: Niche Market Definitions by different authors**

Thilmany (2012)	Groups of consumers (market segments) within the larger marketplace who have similar demographic, buying behavior, and/or lifestyle characteristics.
Parrish (2010)	Focusing on a specialized consumers segment or market.
Toften & Hammervoll (2009)	Often understood as focused marketing towards a limited market consisting of a few customers and competitors.
Amubode (2009)	Addressing a need for a product or services that is not being addressed or ignored by mainstream providers.
Dalgic & Leeuw (1994)	Positioning into small, profitable homogenous market segment which have been ignored or neglected by others.
Shani & Chalasani (1992)	The process of carving out a small part of the market whose needs is not fulfilled.

## 2.1 Market Segmentation

One of the first step in developing an overall marketing strategy is to perform a market segmentation analysis, as a way to manage the strategy development process and ensure its effectiveness and success. The concept behind market segmentation is intuitive and relatively simple (Shrivastava, 2014). Market segmentation is simply taking a look at the overall market for your product and service and thinking of it in terms of smaller, more manageable pieces. People have different needs and wants, even though it would be easier for a marketer if

they didn't serve them as a whole (Sharma & Lambert, 1990). According to (Wedel & Kamakura, 2000) (pg.,3), based on the economic theory of imperfect competition, market segmentation comprises viewing a diverse market as a number of smaller homogeneous markets, in response to differing preferences, attributable to the desires of consumers for more precise satisfaction of their varying wants. "Market segmentation has become a dominant part of the marketing efforts of many companies" (Jiang, 2000). Where, "market segmentation links market needs to an organization marketing program-specific marketing mix actions to satisfy those needs" (Sharma & Lambert, 1990).

According to (Bygate, 2015), Pg. (179), market segmentation involves aggregating prospective buyers in groups that (1) have common needs and (2) will respond similarly to a marketing actions. Where the segmentation might be used on ages, socioeconomic groups, lifestyle, income, benefits sought and usage rate for consumer markets, and size of buyers and reasons for buying, and reason for buying in the case of individual markers (Hollensn & Opresnik, 2010). That means each market segment consist of people who are relatively similar to each other in term of their consumption behavior or "consumers within such a submarket are assumed to be quite similar in their needs, characteristics and behaviors" (Lin, 2002).

According to Doyle (2002), a market segment is defined as "a customer group within the market that has special characteristics which are significant for marketing strategy". Market segment is also defined as "the relatively homogeneous groups of prospective buyers that result from the market segmentation process" (Punj & Stewart, 1983); and "a group within a market that is clearly identifiable based on certain criteria" (Lin, 2002). In niche or focused marketing, the company does not aim to compete in the majority of the market, but rather specializes in one segment, or a small number of segments

(Doyle, 2002). Hence, to be viable, the segment must be clearly identifiable, separated from other segments, easily reached with promotion and large enough to be profitable. Given these factors and a differentiated product, prices, distribution and advertising can all be targeted specifically at the segment (Iyer, Soberman, & Villas-Boas, 2005).

Once the company identify the subgroups, then can target which of these market segments are likely to be the most productive and be the best fit with the company's strength and competitive advantage. Because of segmentation, the marketer is able to match the product or services more closely to the needs of the target market. In this way a stronger competitive position can be constructed (Hooley et al., 2004). Moreover, market segmentation is "a spur to innovation by revealing hidden profit opportunities that can be won by better meeting the needs of specific high-value customer groups" (Doyle, 2002). Furthermore, according to Hooley, Piercy & Nicoulaud (2008), the danger of not segmenting the market when competitors do so should also be emphasized. The competitive advantage noted above can be lost to competitors if the company fails to take advantage of them.

Moreover, "marketers using segmentation strategies attempt to deliver value to a specific subset of consumers who share similar demands" (Baxter, 2007). Through market segmentation the company can provide higher value to customers by developing a market mix that addresses the specific needs and concerns of the selected segment. According to (Baxter, 2007), "Effective target marketing is possible with segmentation". Also, "the company does have to position the product effectively both to the new consumer group and against current competitors" (Doyle, 2002).

Further, "segmentation or customization increases profit opportunities because different groups of customers attach different economic or psychological values to the solution offered" (Doyle, 2002).

According to Capon (2008), as cited in (Ali, 2011), the benefits which are sought via market segmentation include greater sales and profitability; closer match of products and services to customer requirements; greater consumer satisfaction; and a focus on segment with the greatest potential. Additional benefits include further market opportunities, and the development of new market segment and better competitive positions for existing products and services. If the benefits of the type described above do not result to either the company or customer then the segmentation process has not been performed correctly.

### **2.1.1 Methods of Segmenting Markets**

According to (Loudon, Stevens, & Wrenn, 2004), (Pg. 30-39), that in the literature mostly the following methods are used for segmentation:

- *Research-based segmentation:* In this method consumers are screened to ensure they are members of the market under study, then surveyed to determine their attitudes, behaviors, motives, preferences, etc.
- *Existing segmentation service:* In this approach, the marketer uses an existing segmentation service or system to identify market segments that can be evaluated for making targeting decision. These systems may either be commercial systems, or governmental systems.
- *Managerial judgment:* In this approach, the marketer uses his or her knowledge of the market and industry to identify segments. The marketer's insight and skill at using existing information are key in generating good results from this approach.

Each of these approaches has its advantages and disadvantages, no single approach can be said to be best under all circumstances. All these approaches can be used alone or can be used together.

### **2.2 Positioning:**

The positions the firm fills in the marketplace is an integral part of the

strategic process. Positioning can also be thought of as how the firm will stake a claim in a piece of the marketplace in a manner that will differentiate it from competitors. Once the target segments have been selected, the next important step is product positioning, the product must be positioned in order to create a clearly defined image in the minds of customers (Dibb & Simkin, 1991). In marketing, positioning refers to the technique by which marketer try to create an image or identity for a product, brand, or organization. It is the 'place' a product occupies in a given market as perceived by the target market. Positioning is something that is done in the minds of the consumers in the target market. A product position is how potential buyers see the product. Positioning is expressed relative to the position of competitors (Karandeniz, 2009). According to Capon 2008, as cited in (Ali, 2011), it is how customers perceive a product or services in comparison to product or services offered by competitors (Aspfors, 2010). Thus, positioning has been defined in the following term: "positioning is the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customers mind" (Onaolapo, 2000); "the unique image of a product or service in a consumer's mind relative to similar competitive offerings" (Cengage, 2009; Burnett, 2008).

So, all businesses need to develop a positioning strategy. A positioning strategy will outline how a company is going to present its product or service to the consumer and how it will compete in the market place with other businesses offering similar product and services. Businesses are concerned about the perception consumers have of the company and its product in relation to those of competitors. The ideal situation is when consumers perceive a business's products to be superior to its competitor's product or service based on the attributes the company emphasizes in its marketing strategy (Burrow, 2012). In

addition, according to (Onalapo, 2000), “product positioning refers to the place an offering occupies in consumer’s minds on important attributes relative to competitive products. By understanding where consumers see a company’s product or brand today, a marketing manager can seek to change its future position in their minds”.

Hence, positioning requires a company to understand: how customers think about and view their products or services; how the product (or other aspects of its marketing mix) can be modified to meet customer perceptions; and how the customer’s perceptions can be altered to fit the product or service (Dibb & Simkin, 1991).

A company or products competitive advantage may exist not only in relation to the features, attributes and benefits of the product itself, but may also relate to its perceived image. Most successful positioning result often stem from products that possess favorable connotations or perceived positive value (Whalley, 2010). It is the perceived image and attributes of an organization or product/service which is important in the battle for the minds of target customers.

### 2.2.1 Steps in Positioning

In the book Whalley, 2010, pg. (78-79), state that positioning can be achieved within three major concepts;

- I. Functional positions
  - Solve problems
  - Provide benefits to customers
  - Get favorable perception by investors and lenders
- II. Symbolic positions
  - Self-image enhancement
  - Ego identification
  - Belongingness and social meaningfulness
  - Affective fulfillment
- III. Experimental positions
  - Provide sensory stimulation
  - Provide cognitive stimulation

This incorporates the fact that what customers essentially believe or perceive will directly affect the purchase decision. If

positioning is successful, then the position which an organization seeks to attain and what customers perceive should be the same, or at least so close that there is no noteworthy discrepancy. Before an organization establishes a successful position in the marketplace, four key considerations are important; clarity, consistency, credibility and competitiveness (Whalley, 2010). The 4C positioning framework;

- Clarity – the positioning idea must be clear with regard to both the target market and the basis of competitive advantage.
- Consistency – in order to break through the noise level of competing messages, a consistent message and image is necessary.
- Credibility – the position chosen must be credible in the mind of the target groups.
- Competitiveness – any successful market position is dependent on having a distinctive value proposition which is not being offered by the competition.

In understanding product positioning, it is important to remember that what is being positioned is not simply the product itself but rather the total product offering. Any firm must understand its own situation in term of the 4C framework in order to formulate a positioning strategy; an organization must firstly identify the features of products (including its own) which are currently being offered in the target market. It must also, through marketing research, establish which features are considered to be important by consumers. This provide the basic information for a positioning strategy (Whalley, 2010).

### 3. Characteristics of Niche marketing

Although it seems difficult to agree on a single stated definition of niche marketing, there are some characteristics which may be illustrative for niche marketing activities. The characteristics which describes by Shani & Chalasani

(1992) in their paper are known as the basic amongst the academic scholars and that characteristics are known as characteristics of “ideal niche” which are as follows,

- The niche is of sufficient size and purchasing power to be profitable.
- The niche has growth potential.
- The niche is of negligible interest to competitors.
- The firm should have the required skills and resources to exploit the niche.
- The niche should provide the entry barriers for competitors through accumulated customer goodwill.

Dalgic & Leeuw (1994) in their paper “niche marketing revisited: concept, application and some European cases” describe some characteristics of niche marketing. They define these as “niche characteristics” (Dalgic & Leeuw, 1994). These are listed in table below.

**Table 1.2: Niche Marketing Characteristics**

Sufficient size for profitability	Sufficient purchasing ability
No real competitors	A need for special treatment
Growth potential	Customers goodwill
Opportunities for a company to exploit its competencies	

Source: Dalgic, T., & Leeuw, M. (1994). *Niche Marketing Revisited: Concept, Applications and Some European Cases. European Journal of Marketing.*

According to Kotler (as cited in Allen, 2006), an attractive niche is a niche that is profitable and sustainable and is characterized by the following

- Customers in the niche have a distinct set of needs;
- These customers will pay a premium for a product that best satisfies their needs;
- The is not likely to attract other competitors;
- The nicher gains economies through specialization; and
- The niche has size, profit, and growth potential.

Toften & Hammervoll (2013) propose that an attempt to define niche marketing should consider three important aspects that separate niche form segment,

- A niche market is narrow in scope, the term “small” and “narrow” are often

used interchangeably, but narrow appears to be most applicable.

- Niche marketing requires specialized, but skills or assets, which enables product differentiation (perceived uniqueness) and enhanced value for customers.

In a suitable niche market it is possible to be protected by effective entrance barriers. Such barriers for competition could include high product quality/attributes, personal and long-term customers relationship, patents, protected geographical indications and certifications scheme for organic or environmental products, collective identity, high credibility/valued as specialist by customers, focus on market that are more capital and technology intensive and targeting at markets with making seasonality.

#### 4. CONCLUSION

This paper aims to conclude the literature about the elements (constructs) and characteristics of niche marketing strategy. There is a portion of literature available on niche marketing, but a big rations of these papers and books have not yet clearly mention the elements (constructs) of niche marketing strategy. Nowadays the research on niche marketing become a key in the strategic marketing field. It is necessary that there should be a paper which clearly mentions the elements and characteristics of niche marketing strategy, that further help the researchers and policy makers if they are willing to adopt and research on the strategy.

Niche marketing is a continuous process. Niche marketing can be beheld as the execution of the marketing concept. In the implementation process niche marketing requires a market-oriented organization, which is customers focused, competitor oriented, responsive, anticipative, and functions in balance with the market and its internal resources. In addition, niche marketing track targeted business opportunities and long term relationship to sustain and maintain profitability. From the

review of literature it is concluded that successful implementation of niche marketing has numerous benefits, as revealed by different researchers, including increased profits, competitiveness, high growth, and high market share.

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How to cite this article: Akbar F, Bin Omar AR, Wadood F et al. The niche marketing strategy constructs (elements) and its characteristics - A review of the relevant literature. *Galore International Journal of Applied Sciences & Humanities*. 2017; 1(1): 73-80.

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