

The Four Factors for Targeting an Attractive Market

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Abstract

Marketing is a key concept in any business. There are many aspects of marketing such marketing techniques. This paper focuses on how to target a market. This paper has defined four factors for targeting an attractive market, i.e. size of market, growth, stability, and competition that affects the business or firm to target an attractive market is analyzed using rational analysis. It aims to identify the positive effects of such factors in determining the target market. The study finds that such factors positively affect the process of targeting an attractive market.

Keywords: profit, market targeting, size of market, growth, stability, competition

Introduction

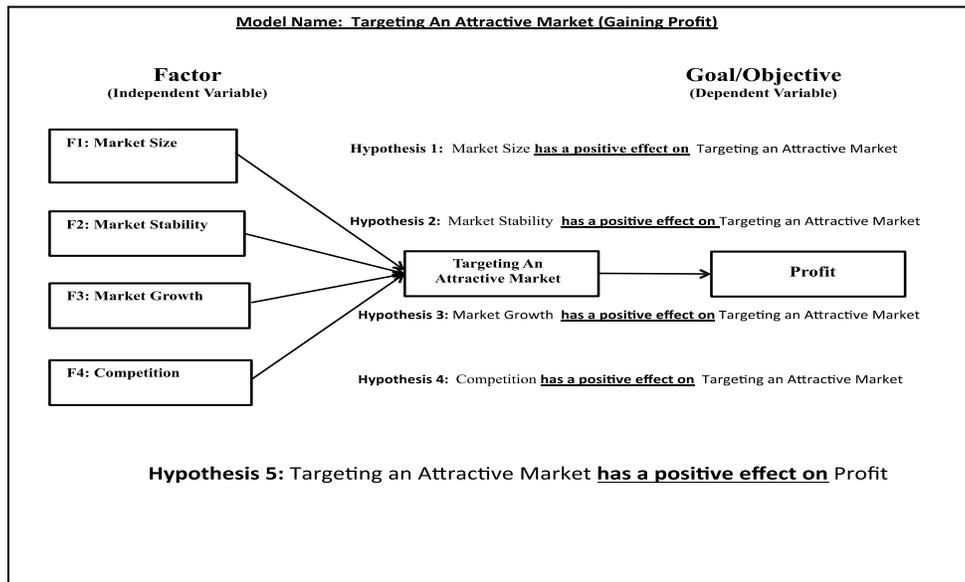
Firms or businesses exist when there is a market to serve or when there is a demand to fill. Expansion for an existing firm is a complex process much less starting from scratch. When deciding to choose a market, there are many considerations that have to be done on the manager's level and on the business level. Normally, a question on profitability will be made first. No firm or business of any kind would ever consider profit as a driving factor for making business. In the global economy's current situation, markets are now more integrated and interconnected. That gives a level of interdependence among nations and its businesses more noticeable and undeniable. The recent credit crunch and economic downturns in Europe and America have put much of the world in its toes. It is evident that such events are led by the increasingly open ways of doing businesses. Targeting markets now are as primal as ever. It is no longer an isolated and personal company objective like the earlier periods of market surges (80s, 90s). Now, managers are more willing to make bigger decisions that will make their companies more profitable [1].

Across the target market and segmentation literature, experiences have been varied. [2] Christopherson found earlier that firms not only often target low-risk but profitable markets but also learn to "discriminate among clients or customers". This is true since targeting a market segment that is in line with expectations, preferences, and objectives gives a firm competitive advantage [3]. Kotler and Armstrong outline the essence of market segmentation as a method to differentiate how consumers behave and what they need by using socioeconomic and psychographic variables [4]. Consumers are also complex as the process of finding the right market. This is concurred by [5] as they categorized consumers as sophisticated, at risk, and vulnerable consumers. Sophisticated consumers are those that are exposed to many advertising and selling approaches in that they already developed a form of defense from these. At risk consumers are like sophisticated consumers but they are prone to addictions and compulsive behaviors.

Vulnerable consumers are those who do not fully understand marketing messages. Indeed, the first step to consider in increasing market share and improving profit is to completely understand your customers. Knowing how they feel, think and act is paramount. Since consumer attitudes and needs change often, finding exactly what they need in such times is an additional challenge [6]. Identifying the target segment and meeting the needs of the customer are very important facets of a successful product in a niche market [7]. Normally, products are produced and sold because they are unique, but sometimes, those products do not get sold. Upon identifying the market to target, that is when brand development, packaging and marketing strategies are prepared. For more exhaustive and efficient niche market targeting especially in this era of high technology goods and services, producers would normally do market research studies or demand studies to secure a more data-led market demand. This is to ensure that customers' needs are met and that no production errors are encountered due to wrong market segmentation strategies or identification.

When firms are able to penetrate a market, how do they fare? What initial strategies do they tap on to prevent losing out in the market? Specifying a target market and considering "product, place, promotion and price" are necessary for customer satisfaction and firm profit [8], and this becomes their mantra for survival. To most firms, keeping their brand unique or stylish at the production level will already give benefits. For some, the distribution process can be utilized to ensure brand survival. Like in [9] study, manufacturers or (producers in manufacturing industries) differ in widely in how they distribute their brands or products among retailers. Retailers' commitments like contractual agreements and investments are found to moderate distribution intensity as well as the relationships between manufacturer's strategies and existing channel distribution practices. For a product or technology to emerge successful, it should be introduced to the right group of consumers [5]. More so, new product failures also exist due to the absence of innovative strategies from the product itself to the marketing efforts [10]. Imperfect information also leads to failures. It is when individuals or consumers are not able to acquire information about products or misunderstand information about them.

Targeting an Attractive Market (Gaining Profit)



Hypothesis

Dependent Variables	Independent Variables
Targeting An Attractive Market	H1: Market Size <u>has a positive effect on</u> Targeting An Attractive Market. H2: Market Growth <u>has a positive effect on</u> Targeting An Attractive Market. H3: Market Stability <u>has a positive effect on</u> Targeting An Attractive Market. H4: Competition <u>has a positive effect on</u> Targeting An Attractive Market.
Profit	H5: Targeting An Attractive Market <u>has a positive effect on</u> Gaining Profit.

The Goal: Targeting an Attractive Market

“Since conditions of competition that firms face are generally defined and measured in the context of markets (whether termed industry or market, and whether the markets are explicitly or implicitly defined), market definition is an essential element of studies of competition. Firms compete because they have something to compete over-the customers that they have in common. If we say that firms, which produce similar products, are competitors, we leave implicit the underlying assumption that because they produce similar products, they will be targeting the same customers. [8] p.535.”

Size of Market

Market size “Gatignon and Soberman (2005) identify three broad explanations for why market evolution affects the way competitors respond to each other. The first is the strategic attractiveness of market over time in terms of expected size. [11] p.170.”

It gives the firm an overall description of what business will be like and this can be quantified by simple calculations. After defining the market area and obtaining the number of people, calculate the number of potential customers from these market size. Calculations like getting the product of the total number of people in the market and the percentage of potential buyers (maybe derived via a market survey) will give you the approximate niche market size [12].

Checking the demographics linked to the market size is also important. Normally you would consider questions like how fast is the market expanding? or what can you gain from the existing demographics of your target market? Are there younger people? Older people? Rich people? Or is the middle class big enough? [13]. Consumption considerations must also be a primary research aim when starting to identify your target market [14]. Looking for consumption data on a specific good or service your firm produces through databases or through market demand research will help you determine whether the market size is the right niche for your product [15]. It is essential to have a big consumer base so as to sustain the growth of your enterprise. If the market is small, there is no way to create bigger profits since very few would potentially buy your products [16]. If the market is too small, there will be not enough revenue to cover start-up costs, capital costs and operating costs. If the market is large enough, initial costs will be covered and firm survival is ensured. Indeed, size of market has a positive effect on targeting an attractive market [15]. Also, relationship of firm size and the chances of survival is determined by the stage of the industry life-cycle. Also smaller firms are likely to have less chance of surviving in a market than bigger firms [17].

Growth

“ The literature examining the nature of competition in markets characterized by different levels of market. Growth provides ambiguous conclusions. Most empirical work suggests that competitive reaction is stronger and faster in growing market. [11] p.170.”

Market growth is an indispensable market attractiveness criterion in targeting a market to which a business can flourish [18]. A location with growth can also mean sales. Growth considerations are an integral part of the decision-making process for a firm. Red and Salvacruz in their article explained that the decision of entering a market (foreign or domestic) or simply expanding your business should not be made unless proper evaluation of other target markets and other issues has been conducted. They further made classifications of growth (i.e. low-growth and high-growth) and using growth-related variables to gauge the possible departures form an ideal target market [19] [20] . Questions like "what is the current growth rate of the market or industry?", "what is the growth potential?", and "are there limitations to consider in the growth of the market?" must be asked when considering growth in targeting a market [21]. If these questions get favorable answers, it will validate our claim that growth has a positive effect on targeting an attractive market. The evidences that follow support this. [19] Explains that the decision of entering a market (foreign or domestic) or simply expanding your business should not be made unless proper evaluation of other target markets and other issues has been conducted. They further made classifications of growth (i.e. low-growth and high-growth) and using growth-related variables to gauge the possible departures form an ideal target market. [21] In their article a study on SME segmentation, determines that the type of entrepreneurial business activity (i.e. lifestyle, survivalist, limited growth, and high potential) or its growth potential in the industry is key in "strategy formulation and service delivery".

Stability

“Environmental Stability: a key exogenous factor that affects the evolution of the markets is stability of the environment in terms of the customer base, the distribution system, the production system, and the technology. In addition, rapid changes in the price or availability of commodities can have a significant impact on the development of a market. [11] p.171.”

Market stability indicators may include volume of domestic production, the net trade balance, and the seasonal production and price volatility [22]. By volume of domestic production, this includes the industry's basket of goods and services' consistent or erratic production data, which may be due to supply-related (e.g. disasters, drought, etc.) or demand-related (e.g. consumer tastes, preferences) factors. Net trade balance refers to the difference of goods coming in and out of the market. A positive trade balance would mean production within the market is high while a negative trade balance means demand for outside goods (like imports) is high. Seasonal production and price volatility normally covers agricultural products and luxury items.

Market stability, characterized by low price stability, is good for consumers since it lessens cost of capital and overall prices of goods, while market instability does the opposite [23]. Producer-wise, high prices are an attractant to keep on producing, as per economic theory. However, that only works well if the firm or business has already entered a market. Following this norm as a new entrant in a market or industry will only dissuade consumer confidence in your product/s. Other factors like regulation can also have an impact to the market. Price controls and supply regulations can artificially stabilize or destabilize markets. The presence of such barriers to production may lead to a less attractive market .So stability, we can conclude, has a positive effect on targeting an attractive market.

Competition

“The Number of Competitors Over Time: In general, as a market matures, there is a process of consolidation (the number of active firms declines). In addition, after a firm has been active in a category for some time, it has often made significant category- specific investments (production facilities, a sales force or distribution channel). New initiatives thus, pose a significant threat so active firms generally devote significant attention to monitoring competitive activity and react quickly (and intensely) when threat is identified. Of course, monitoring competitors is easier when the number competitors are lower. Therefore, as a category matures, reaction to new initiatives should become faster and stringer. [11] p.171.”

The existence of competitive firms in the market is also a sign of good market health. But when is too much competition healthy for an incoming firm? If competition in a market is increasingly tough as time goes by, the firms slowly evolves from short-term market competition to long-term market competition making entry far more difficult. Usually blue chip firms or those companies that have long been in the industry and have amassed a considerable amount of capital and assets are the ones that is hardest to compete with, if not nearly impossible. So for an entrant, having a new product or a differentiated product will be able to attract buyers. Otherwise, no competitive edge will result [24]. If competition increases among firms, the likelihood of firms becoming unprofitable due to costlier inputs is higher, and hence, liquidation is unavoidable [25] [26]. Such observation is affirmed by an earlier study on compensation's effects of managers by [27]. Other effects of competition that may lead to a relative attractiveness to firms to target a certain market are: (1) competition allows "greater sensitivity of profits" to shifts in efforts by the manager, and (2) with more firms, a "yardstick competition" (regulations) will be easier to implement [28]. In effect, on the managerial level, product market competition decreases managerial slack. In theory, managers only mind about reaching a profit goal. So when the cost of inputs falls, they will work less. However, if the product market is competitive, all firms in the market will feel the reductions in input costs and this will go with falling prices. Now, the managers will not slack off since profit targets must be met Competition, then, has a positive effect on targeting an attractive market [29] [26].

The Final Goal: Profit

“Supply-based perspectives of market structures grew out of the industrial organization (IO) school, which espouses the importance of the industry structure by observing that profitability depends on industry concentration. [30].p105.”

“ Consider a market with three segments in which profitability and volume vary across the segments in which profitability and volume vary across segments, and assume that the two focal firms possess two brands each. Furthermore, assume that the first firm serves the first two segments and the second firm serves the last two segments. Thus, the two firms actively compete in the second segment, but competition between them likely goes beyond this second segment, as there probably are overlaps across the segments as the firms could use profits from the first and third segments to feed their rivalry in the second segment. The challenge for the brand-level approach here in quantifying competition is immense. What should be the basis of aggregation—segment market shares, volume, or profits? Even if the two firms had brands in the same segment, the issue of the bases of aggregation would still be key. [30]. p.105.”

The objective of establishing most companies is gaining profit and financial reasons. Targeting an attractive market is considered as one of the marketing strategies used by companies to concentrate on number of people and a certain kind of business to gain profit. Market strategy is the plan that the company designs to create customer value and achieve customer profitability relationship. After segmenting the market to multiple segments, comes the company decision to target one or more segment. These segments differs from each other from the prospect of number of people and financial resources, so companies search for market niche [31].

Research Method

The main point of this inquiry is to prove the validity of a model of targeting a market using the variables of size of market, growth, stability, and competition. Furthermore, targeting an attractive market is considered one of the independent variables of gaining profit for a business. The research method used is a mix of case study method based on rational analysis (research findings that are based on the real world observation of practitioners and organizations e.g. [32], [33]) and review centric (which is the approach in which the researcher reviews “existing theory and research” [34] p. 506) methods. Nowadays, combining research methods e.g. [35] is increasing the importance of achieving the goal gaining “rich theoretical insights. [33]p. 613.” By inferring on previous literature's results regarding target marketing, gaining profit, and the existing theory behind it, objectives of the study is achieved.

Importance Of Targeting A Market

From this study, we can agree on the fact that targeting an attractive market solely relies on the capability of a market to "produce" consumers that are willing to pay for a certain product. The factors of size, growth, stability and competition are industry variables that can positively relate into profit growth. If market size is high, chances of profiting is high, so we can enter the same market is true with growth, stability and competition. With high growth, more stable market and more competition, the chances of profiting are also high, hence, entering the market is favorable. These implications will be helpful to any small or large firm that is thinking about expanding or penetrating a new market. On the managerial level, it must be emphasized from the results gathered that entering a healthy market also makes managerial decisions healthy. This model can also be used as an empirical model where all four factors will be the independent variables of the predicting equation. Empirical analysis will also test the significant effects of such variables to the dependent variables. This will prove further the conceptual relevance and even statistical validity and empirical value of the model. This will help the businesses, managers and policy makers alike in terms of efficiently making company decisions and policies regarding market targeting and market competition as a whole.

Conclusion

Targeting a market is a complex process with many variables or considerations to consider even when attempting one. Previous studies have focused largely on marketing management and theoretical assumptions of the competitive firm entering a competitive market. Market segmentation is a good departure for the analysis done in this study. With the process of penetrating markets locally and internationally an increasing concern for many firms or companies, an ideal mix of decisions and analytical precepts are tapped. Choosing a model for targeting attractive markets is crucial especially in the current global economic situation. Markets are now internationalized more often than not, and domestic firms are fast-tracking production to remain relevant in the market. This study chose four variables to complete the model. The variables used, i.e. size, growth, stability and competition, are a combination of standard and non-standard factors in measuring the favorability of entering new markets. Size of market ensures more customers or consumers buying your product (and eventually profit). Growth signals that a market is expanding and has money to spend. Stability measures the long-term health of a market, whether prices are stable enough to warrant a healthy business environment. And lastly, competition is a relational measure of how firms interact, whether firms are many and competitive or only some rule the market. The factors tested proved relevant in the process of targeting attractive markets.

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