

## Segmentation in Manufacturing and Service Industry: a Key to Profitability

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### Abstract

The aim of this study was to assess the segmentation practices of furniture manufacturing businesses. A survey of sixty registered furniture manufacturers was carried out in Meru North District. The general objective of this study was to find out how furniture manufacturers determine customers for their products. During this study, primary data was collected from Maua Municipality and its environments using structured, semi structured questionnaires and direct observations was used.

The study looked at the nature of segmentation practices variables commonly used in segmenting the market, effects of current practices on these manufacturer's businesses and sort options on how segmentation could be improved. Data analysis was done using Microsoft excel computer packages. Information was presented through bar charts, percentages tables and pie charts

This research reveal that more than half of the respondents (53%) segment their market and produce specific items for specific customers. this helps them make more profits and allocate their resources. Those (47%) who did not segment their market thought it was not important. The variables used were income social class and institutions. Majority (60%) of the respondents said it was important to give the customers what they wanted.

The study concluded that majority of furniture manufacturers are aware of segmentation practices. Their main source of furniture raw materials were wholesalers and retailers who obtained timber from Nyambene Forest and its environment, which has caused destruction to the forest

The study recommends that the government through financial institutions should give the furniture manufacturers financial support since these businesses contribute greatly to Kenyan economy, reduce poverty and offer employment. Government needs to put emphasis on their training and offer financial support because furniture manufacturing creates jobs and supports the economy.

**Keywords: segmentation; manufacturing; service industry; profitability**

## 1. INTRODUCTION

Manufacturing is a branch of industry which accounts for about one quarter of the world's economic activity. Manufacturing is an important income distributing sector which has a great potential for creating employment and sustainability in a growing economy in which increasing number of families and institutions uplift their standards of living.

In the 21<sup>st</sup> century, manufacturing businesses aspiring to succeed must segment their businesses. Segmentation should also be applied to service industry as well.

Market segmentation is the process of subdividing the market (customers) into distinct subset of customers that behave in the same way or have similar needs. Each subset may be chosen as distinctive market strategy.

Today's generation Y' has information on every product they want through the internet. Those industries that will succeed are the ones 'Tailor-making' products for each subset of customers. It will be important to make products with specific factors that reflect differences in customer requirements or responsiveness to marketing variables in customer requirements, for instance, purchasing behavior usage benefit sought, preferences and loyalty.

Advertisers to the Gen Y group specifically target this audience and see them as valuable current consumers or soon to be consumers. As a market, this group can have significant impact on spending, since 76 million people fall into the Gen Y category. Other trends that Generation Y seems to have impacted are things like the PG-13 rating, something that has only existed in the past few years. Film manufacturers often strive for the PG-13 rating, because to do so means they'll attract the Gen Y audience, who are for the most part avid moviegoers and consistent spenders at the movies.

Globally, subdividing customers into groups with similar needs and wants leads to effective customer service, profitability and also puts a company at a competitive edge against competitors. For internet generation to be satisfied in the 21<sup>st</sup> century their needs and wants must be met.

The winning companies in future will be those that meet customers' needs profitably. The emphasis will be to satisfy the customers and profits will flow. The old routine of making "one outfit for all" will not be effective as it does not satisfy all the customers any more.

Each firm must research on the tastes and preferences of the target segment if they have to offer satisfying products to their customers.

Today's customers will follow those products that offer most quality, performance and innovative features. Each organization whether service or manufacturing must focus on making superior products and improving them on time in their target segments.

### *1.1 objectives*

#### *1.1.1 Main objective*

The general objective of the study was to determine prevailing market segmentation practices among furniture manufacturers.

### *1.1.2 Specific objectives*

- Determine effects of current practices on furniture manufacturers
- Identify segmentation variables commonly used by furniture manufacturers.
- Options on how market segmentation can be used.
- To highlight the importance of segmentation for profit making.
- Importance of customer satisfaction in the 21<sup>st</sup> century

### *1.1.3 The scope of the study*

The study was carried out in Maua municipality of Meru North District and its environments. It was only based on the registered furniture manufacturers.

## **2. LITERATURE REVIEW**

### *2.1 Theoretical review*

An approach to market segmentation, whereby it is possible to identify market segments by causal factors rather than descriptive factors, might be called "benefit segmentation, "The belief underlying this segmentation strategy is that the benefits which people are seeking in consuming a given Product are the basic reasons for the existence of true market segments. Experience with this approach has shown that benefits sought by consumers determine their behaviour much more accurately than do demographic characteristics or volume of consumption.

Armstrong (2002) defines segmentation as dividing a market into smaller groups of buyers with distinct need, characteristics or behavior, which might require separate products or marketing mixes. The market is divided into different homogeneous groups of customers rather than offer the same marketing mix to vastly different customers. Market segmentation makes it possible for firms to tailor the marketing mix for specific Target market that is better for satisfying customer's needs.

Michael et al says that a company cannot serve all customers in a broad market, because the customers are too numerous and diverse in their buying requirement. Segmentation distinguishes between buyers for instance who want low cost basic items and those seeking luxurious items. To segment a market, firstly, it involves identifying the current and potential wants that exist within a market.

### *2.1.2 Empirical review*

Ndual and Ngethe (2000) attempted to investigate education, training and welfare in their informal sector of carpentry and metal works in Eastland of Nairobi. They argue that the furniture making sub sector is of particular interest, there is a prima facie case that has exhibited a more pervasive potential for growth and adaptability to new market conditions and technology has given its operators market competitiveness and gains on investments.

Shabana (2001) studied the role of marketing in micro and small enterprises, and concedes that in order for marketing to have any impact on performing of small scale enterprises like furniture manufacture ring, all aspects of marketing practices must be laid down and practiced. He did not explore the area of segmentation practices.

Arnia(2000) researched on innovations as a collective enterprise. A case of carpenters in Nakuru town and he found out that furniture manufacturers experience difficulties in finding skilled workers, purchasing machinery and getting customers from competitors. He suggests that furniture manufacturing sub sector can only survive if they exploit market segments and niches. He did not investigate further on this line though he recommends a research in future on marketing practices of furniture manufacturing.

Wind et al (2003) researched on market segmentation cycle and concedes that marketers have to further research on every new prospective customer to know their service requirements in order to assign them segments. They argue that segmentation is very important and should be researched on all aspects as on going process.

Machar (2004) researched on factors that enhance growth of furniture manufacturing firms in Nairobi. He concludes that there is need to assist furniture manufacturers to come up with effective marketing and sales channels and techniques so as to improve their performance. He recommends a market research to be done to identify the target group of customers at whom furniture manufacturers aim their goods and services.

Scabar (2004) who studied effectiveness of small businesses argues that literature affirms that the greatest marketing mistake small business like furniture manufacturers make, is failing to clearly define the target market to be served. He concludes that many of these businesses often do not understand marketing and could be, and when they do, they may not be organized. Though these researchers touched on marketing practices, none of them researched on segmentation and marketing practices of furniture manufacturing.

### **3. METHODOLOGY**

#### *3.1 study design*

The study design was descriptive in nature; situations were described in details as the existed. The study was both qualitative and quantitative. The researchers used both descriptive and explanatory approach in which description of situations and facts given provided designed descriptive information. Detailed information was obtained in order to come to useful conclusion in this study.

#### *3.1.2 Target population*

The population of interest was all the registered furniture manufacturers in Maua municipality and its environments, who were registered between august 2005 and August 2006, totaling to sixty two (62). These were chosen because Maua municipality and its environment had many furniture businesses which would give a more accurate data. Maua municipality and its environment include the targeted towns of Maua, kanuni, Mwiyo, Maili tatu, Nturuba, Gitura, Laare, and Mutuati.

#### *3.1.3 Sample and sampling procedure*

A survey of all the entire population was done since the target population was only 62 respondents which was a small number. Structured and semi-structured questionnaires were administered by the researcher to collect primary data directly from the respondents. Secondary data was collected from municipality and district development records. The questionnaires were filled and picked after completion.

#### *3.1.4 Data analysis*

Data was coded to facilitate analysis. It was analyzed with aid of excel computer packages. Data was categorized and arranged to determine how independent and dependent variables related.

#### *3.1.5 Research findings*

According to a research we conducted on awareness of segmentation in furniture manufacturing, it was seen that manufacturers rarely attempt to explore markets which they are familiar with. It was seen that many businesses are started on the basis of the skill possessed and capital available this leads to production orientation as opposed to market orientation.

In the manufacturing sector, it was observed that there is more of coping rather than production innovation. We found that there was apparent lack of creativity in most of the manufacturing sector. Most of the manufacturers had oversupply of similar products in the market which resulted in business stagnation, slow movement of goods resulting in dead stocks. It was also clear from the research that most manufactures failed to segment their markets, define their target market clearly and did not “tailor-make” their products for particular customer group. This caused failure of many businesses in their first three years.

It was clear from the study that more than fifty percent (57) produced specific items for specific customers. A large number (43) percent did not produce specific items for specific customers. Those who segmented their market said it helped them to make more profits and allocate their resources well. A large number (90.3%) were men and (9.7%) were women. The study showed that 75.5% operated on temporary structures that made between Shs 10,000 and Shs 35,000 per month meaning that these businesses were small scale in nature.

The study showed that 71% of these respondents distributed their products directly to the customers. 77.4% were aware of marketing practices meaning they knew customers had tastes and preferences. Forty three (43) percent did not segment their market because they thought it was not important. Majority of those who segmented the market used income, social class, institutions and individual variables in segmenting their market. They all appreciated that distinct groups of buyers have different needs which require separate products.

### *3.1.6 Conclusions*

Based on the finding we draw the following conclusions

All business organizations seeking success and profitability must change to adopt mega waves of change that are causing fundamental differences in a way that managers and their organizations must function in order to grow and prosper in the 21<sup>st</sup> century.

Manufacturing and service organizations must use the increasing technology as a means to subdivide its customers into subsets that can be targeted, then direct their resources to these segments to improve productivity and market competitiveness.

By using segmentation, organizations will be making products that are unique and different for each subset of customers. This will help the organization to "keep customers for life" and continue attracting new ones, as they meet their goals and objectives efficiently, effectively and profitably. Segmentation will be the key to finding out how businesses determine customers for their product, customer practices and what they consider important for their tastes and preferences. Segmentation will help organizations produce specific items for specific customers which in the long run, will aid these organizations to make more profits and allocate their resources efficiently.

### *3.1.7 Recommendations*

Manufacturing is a branch of industry which accounts for about one quarter of the world's economic activity. Manufacturing is an important income distributing sector which has a great potential for creating employment and sustainability in a growing economy in which increasing number of families and institutions uplift their standards of living.

In the 21<sup>st</sup> century, manufacturing businesses aspiring to succeed must segment their businesses. Segmentation should also be applied to service industry as well.

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Each firm must research on the tastes and preferences of the target segment if they have to offer satisfying products to their customers.

Today's customers will follow those products that offer most quality, performance and innovative features. Each organization whether service or manufacturing must focus on making superior products and improving them on time in their target segments.

With regard to awareness of segmentation in furniture manufacturing, it was observed that manufacturers rarely attempt to explore markets which they are familiar with. It was clear that many businesses are started on the basis of the skill possessed and capital available this leads to production orientation as opposed to market orientation.

In the manufacturing sector, it was observed that there is more of coping rather than production innovation. We found that there was apparent lack of creativity in most of the manufacturing sector. Most of the manufacturers had oversupply of similar products in the market which resulted in business stagnation, slow movement of goods resulting in dead stocks. We also observed that most manufactures failed to segment their markets, define their target market clearly and did not "tailor-make" their products for particular customer group. This caused failure of many businesses in their first three years. This prodded this writer to write this article and create awareness on the importance of segmenting both manufacturing and service businesses

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**Definition of terms**

**Generation Y:** A label attributed to people born during the 1980s and early 1990s. Members of Generation Y are often referred to as “echo boomers” because they are the children of parents born during the baby boom (“baby boomers”). Because children born during this time period have had constant access to technology (computers, and cell phones) in their youth, they have required many employers to update their hiring strategy in order to incorporate updated forms of technology. Also called millennial, echo boomers internet generation, iGen, net generation.

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