

# MARKET SEGMENTATION OF A SPECIALISED RETAIL INDUSTRY

Case : Company X

LAHTI UNIVERSITY OF APPLIED  
SCIENCES  
Faculty of Business and Hospitality  
Management  
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Jyri Karhapää

Lahti University of Applied Sciences  
Degree Programme in International Business

KARHAPÄÄ JYRI JUHANA:                   Market Segmentation of a  
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ABSTRACT

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The concept of market segmentation can refer to a wide variety of processes and methods and there does not exist universal agreement on what it precisely entails in practice. This thesis assumes the position that market segmentation is one of the first parts of the marketing process. The primary objective is to segment one of the eight major industries of Finnish specialised retail stores into small groups of potential customers for a specific product of an international commercial background music provider serving B2B markets.

Prior to segmentation, the topic of total sales potential is used to compare eight major industries of retail to choose the most attractive industry which turned out to be fashion retail. A systematic secondary data collection process is used to identify active businesses in that industry to build a census of companies from which market segments can be formed.

The segmentation work is based on a classic B2B segmentation model by Bonoma & Shapiro (1984). Two models of segment selection (market targeting) are used to test if segments are suitable in the context of the case company. The end result is that two out of six identified market segments can be recommended.

The thesis also utilises an original market survey designed to collect deeper primary data about one identified market segment. The survey is concerned with the specific needs of retail stores in that segment. A satisfactory response rate allows limited conclusions to be drawn to the larger population of stores, though external validity is decreased by a coverage error that occurred earlier in the data collection process.

The conclusion was that while processes could have been performed with better planning, the project improved the case company's understanding of the fashion retail market and sales attempts to the two recommended segments are definitely worth trying.

Key words: market segmentation, retail, market survey, targeting

Segmentoinnilla voidaan tarkoittaa monenlaisia prosesseja sekä toimintatapoja, eikä ole olemassa yhteisymmärrystä siitä mitä se tarkoittaa käytännössä. Tämä opinnäytetyö omaksuu tulkinnan, jonka mukaan segmentointi on yksi markkinointiprosessin ensimmäisistä vaiheista. Pää tavoite on segmentoida yksi suomalaisen erikoistuneen vähittäiskaupan kahdeksasta päätoimialasta pienempiin mahdollisten asiakkaiden ryhmiin, erään kansainvälisen B2B-taustamusiiikkipalveluiden tarjoajan tietyn tuotteen kontekstissa.

Ennen segmentointia, myyntipotentialia käytetään vertailemaan kahdeksaa päätoimialaa keskenään, jotta houkuttelevin toimiala voidaan valita. Tämä on muotikaupan ala. Systemaattisella toisen käden tietoa keräävällä prosessilla tunnistetaan aktiiviset yritykset muodin alalla, jotka muodostavat laajan joukon yrityksiä joista segmenttejä voidaan muodostaa.

Segmentaatiotyö pohjautuu klassiseen B2B-segmentaation malliin (Bonoma & Shapiro 1984). Kahta segmenttejen valinnan (markkinoinnin kohdentaminen) mallia käytetään testaamaan, ovatko segmentit sopivia case-yrityksen tilanteessa. Lopputuloksena kahta kuudesta segmentistä voidaan suositella.

Opinnäytetyö käyttää myös alkuperäistä markkinakyselyä keräämään syvempää ensi käden tietoa yhdestä määritellystä markkinasegmentistä. Kysely tutkii myymälöiden yksityiskohtaisia tarpeita tässä segmentissä. Tyydyttävä vastausprosentti sallii rajoitettujen päätelmien yleistämisen laajempaan myymälöiden joukkoon, mutta ulkoinen validiteetti kärsii kattavuuden virheestä joka sattui aiemmin tiedonkeruuprosessin aikana.

Tutkimuksen päähavainto on, että vaikka prosesseja olisi voitu parantaa paremmalla suunnittelulla, projekti kasvatti yrityksen ymmärrystä muotikaupan marketista ja myyntikokeilut kahteen suositeltuun segmenttiin ovat ehdottomasti yrittämisen arvoisia.

Avainsanat: segmentointi, vähittäiskauppa, markkinakysely, kohdentaminen

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# 1 INTRODUCTION

The whole thesis study is introduced in this chapter, beginning with a short introduction to the case company and specialised retail in Finland.

Rationale for research leads to the formulation of three research questions. Research and data collection methods are then explained, followed by limitations that frame the scope of the study. Finally, the overall structure of the thesis is described.

## 1.1 Pragmatic background

Company X (“the Company”) is an international provider of Internet-based music. This work will focus on the Company’s flagship product, Product X, which is a product for use in B2B (“business-to-business”) markets instead of B2C (“business-to-consumer”) usage.

Two definitions that will be used throughout this thesis in context-dependent meanings should be explained. A *market* is “a geographic area of demand for commodities or services” (Merriam-Webster 2016a). This is the meaning that is used when “the Finnish market” is referred to. Another definition is: “a specified category of potential buyers” (Merriam-Webster, 2016a) which will be used when discussing specific industries or more specific groups of potential customers. An *industry* is “a distinct group of productive or profit-making enterprises” (Merriam-Webster 2016b) which can refer to large industries that contain other smaller industries.

The Company is already successful in some B2B markets but is looking to expand to entirely new industries. One possibility suggested has been retail trade. This is partly supported by a study conducted by Innolink Research Oy (2016b) for Teosto. 97 of 1000 companies (9.7%) use a commercial background music service (Innolink Research Oy 2016a, 1). 52.6% of retail stores rate music as at least “somewhat important” for their business operations, with only hairdressers and restaurants giving higher rankings (Innolink Research Oy 2016a).

Another justification for retail is that studies demonstrate the positive



effects of background music in retail environments. Oakes & North (2008, 68) argue that matching music genres to the desired organisational image, service environment and products being sold may lead to a “variety of positive outcomes”, most notably consumers being willing to pay higher prices. Yalch & Spandenberg (2000) reviewed studies on the subject and performed their own experiment, concluding that music can increase the time consumers spend shopping, leading to increased spending.

This thesis could therefore fill knowledge gaps about the size and potential of the retail trade market to benefit the company and the author’s personal learning.

### 1.1.1 Retail trade and specialized retail trade in Finland

“Retail trade” can refer to the overall industry of retail, but retail also contains many industries in itself and these are grouped in different major categories. Such categories are also formed by the items sold and the type of physical store (not all stores stay at a fixed address). The Finnish TOL 2008 industry classification system created by Statistics Finland (Statistics Finland 2008) can be used to distinguish between industries in a standardized manner: TOL 2008 complies to the international NACE industry classification system.

In TOL, Finnish retail stores are found under industry class 47:

“Vähittäiskauppa (pl. moottoriajoneuvojen ja moottoripyörien kauppa”.

Class 47 is found in Appendix 1. However, classes 478 (“retail sale via stalls and markets”) and 479 (“retail trade not in stores, stalls or markets”) are cut because they are fundamentally unsuitable for Product X.

In a review of the state of Finnish retail trade, Santasalo & Koskela (2015, 10) describe three main industries that form Finnish retail trade. These correspond with the TOL 2008 system:

- *Grocery and department stores* are mostly controlled by large, sometimes international corporations. The largest individual store locations are in this category. In 2013, there were about 5900

grocery stores and 665 department stores. Represented by TOL class 471 and its nine subclasses.

- *Specialised stores* specialise in selling the products of specific industries. This is why there are more and smaller companies in this category than in grocery and department stores. In 2013, there were approximately 19000 specialized stores. TOL classes 472-477 and their subclasses total to 71 different types of specialty stores, which Santasalo & Koskela (2015) place in eight major industries.
- *Car and motor vehicle stores* stand out from other retail stores due to their larger overall size. In 2013, there were 3745 stores. These are not in TOL class 47, possibly due to their larger size.

Specialised trade has the most store locations and the widest variety of companies and industry subclasses. The rise of online retail in recent years has taken profits away more from specialised trade than grocery and department stores, but the significance of a more entertaining physical store environment is also increasing as a way to attract consumers (Valli et al. 2015, 93). This could increase demand for background music services.

Therefore, the thesis will focus on the eight major industries of specialized retail trade. *Major industry*, from now on, refers to the eight major industries of retail defined by Santasalo & Koskela (2015).

## 1.2 Theoretical background

Relevant background theory to the current situation includes where the topic aligns in the *marketing process*, as well as overall company strategy. Ansoff (1965) famously created four distinct basic strategies for business growth. These involve choices between current or new markets that are served, and current or new products that are offered. *Market development* means approaching a new market with an existing product. The strategy does not need investments in new product development and can be used to expand the potential amount of customers to reduce risk (Ansoff 1965).

The thesis falls under market development, where a new market is understood as new groups of buyers, not new geographical markets.

### 1.2.1 Four P's of strategic marketing

Kotler (1989) defined actions that companies should carry out to approach new markets as *the four P's of strategic marketing*. These are: *market research* ("probing"), *segmentation* ("partitioning"), *targeting* ("prioritizing"), and *positioning*. This study will focus on the first three P's and will not perform positioning.

Market research and *marketing research* are interchangeable terms and both describe "the systematic gathering, recording and analysing of data relevant to a particular market" (Kotler et al. 2012, 155). In this way, market research can be understood as not only the first "step" of the four P's, but as something that also occurs concurrently with the other processes as additional data collection and analysis is conducted.

The rest of the three P's – segmentation, targeting and positioning – can be considered a single three-step process (Blythe & Zimmerman 2005, 86). Segmentation has been studied since 1956 and definitions vary (Wedel & Kamakura 2012, 3). Moore (2008, 193) defines segmentation as "the process of dividing a large market into groups with similar needs, such that each group is likely to respond favourably to a specific marketing strategy". Targeting consists of evaluating and selecting which segments to address (Havaladar 2005, 485).

Positioning means developing how the product and brand should be expressed to targeted segments in the form of a value proposition (Kotler 2009, 361). This leads to how the targeted segments perceive the brand and product. The thesis will not focus on positioning and instead assumes that positioning would be performed like in the Company's current markets. The rationale is that positioning will be intrinsically linked to existing design properties of Product X. At its core, positioning is built on Porter's (1980, 35-38) generic competitive strategies (Zahay & Griffin

2010, 85). Product X is mainly built on a *differentiation* strategy based on the unique qualities of the product instead of its price (Porter 1980, 37).

### 1.3 Thesis objectives & research questions

The central objective is to find out if there are any potential market segments for Product X in specialised retail. Research questions are defined below in the order that they will be answered. Research Question 2 is the main question, but answering Research Question 1 first is necessary:

Research Question 1: *How do the profit potentials of the eight major industries of specialised retail trade compare with each other?*

Research Question 2 (**Main Question**): *Are there any recommendable market segments for Product X in the chosen major industry of specialized retail stores?*

Research Question 3: *What are Finnish companies in a studied segment looking for in background music services?*

To answer Research Question 1, the major eight industries of specialized retail must be compared against each other. Research Question 2 requires highly detailed secondary data collection, which will be done for only one of the industries due to time limitations because there are up to 19000 specialized retail trade stores in Finland (Chapter 1.1.1). Finally, Research Question 3 follows from Research Question 2 and tries to describe the needs and wants of one chosen segment in the studied industries.

### 1.4 Theoretical framework

Chapter 1.2.1 explained that the processes of segmentation and targeting should be performed. There would probably be many different approaches to these processes and the thesis can not attempt them all. The below framework (Figure 1) summarises the most important theories chosen to answer each Research Question.

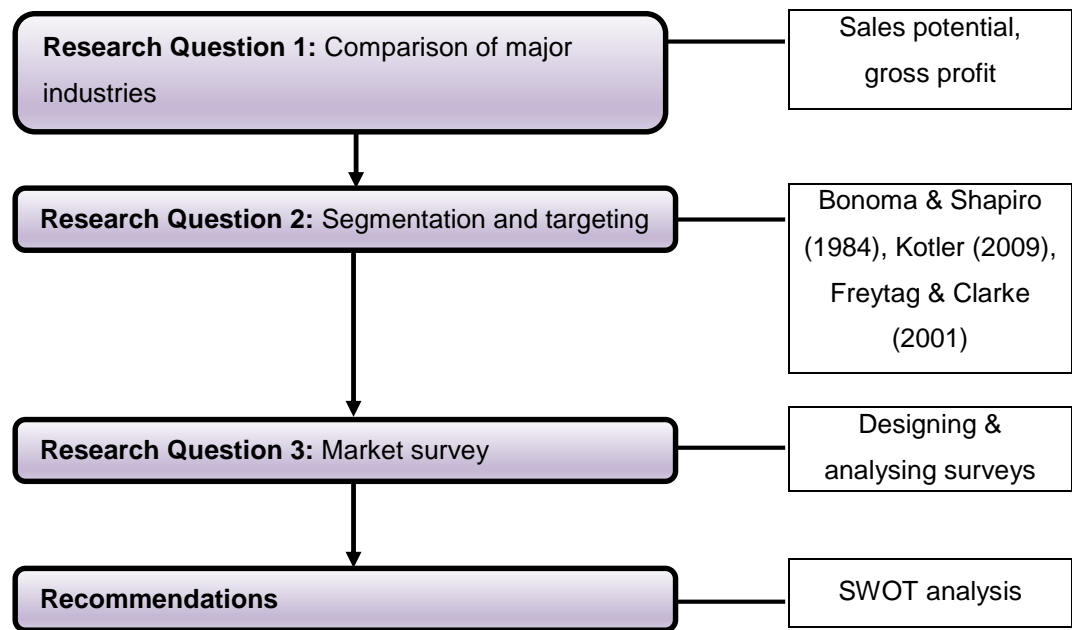


FIGURE 1. Theoretical framework

The majority of all theoretical content focuses on segmentation and targeting.

### 1.5 Research methodology and data collection

The two main paths to solve any research problem are known as *inductive* and *deductive* research. Deductive reasoning follows a logical pattern, where general ideas are narrowed down to more specific ones through *hypotheses* and testing. Inductive research can be understood as the reverse, as specific observations are a starting point for the creation of general hypothetical patterns that are then tested (Burney 2008, 7). This thesis was born as deductive research. The original idea was to find out if it was possible to create something useful for the Company. The topic gradually narrowed down into a market research project which leans on existing theories to make conclusions.

There are two research methods: qualitative and quantitative. Qualitative research is concerned with questions like *how* and *why* things happen. The quantitative approach is used when working with something that can be accurately measured (numerical data). As another distinction, Glenn

(2010, 86) mentions that “qualitative research is exploratory (e.g. hypothesis-generating) while quantitative research is more focused and aims to test hypotheses”. This thesis will incorporate mainly quantitative methods in answering its research questions: the first question involves numerical comparisons of the attractiveness of major industries, the second does this for segments, and the third question is answered using quantitative data from a market survey, which also involves hypothesis testing. However, industry choice and segmentation decisions will also require qualitative judgements, all relevant information will not be quantitative, and the market survey will include a minor qualitative component. Using both quantitative and qualitative data to solve one research problem is called *triangulating* data sources and therefore the study will be an implementation of *mixed methods research* (Creswell 2003, 15). Effective mixed methods research requires that the quantitative and qualitative data are compared together when making conclusions, and not interpreted in isolation (Bazeley 2015).

Specific research tools used, in order, will be: calculations of total sales potential and gross profit used to compare the eight major industries of specialised retail (Research Question 1), a market segmentation process by Bonoma & Shapiro (1984) also modified by Blythe & Zimmerman (2005), segment evaluation and selection processes by Kotler (2009) and Freytag & Clarke (2001) to perform segmentation on the chosen industries (Research Question 2), an original market survey to investigate a specific segment (Research Question 3), and a SWOT analysis that finally summarizes the whole situation.

Both *primary* (original information) and *secondary* (existing information) sources will be used for data collection. The major sources of secondary data that will be used while researching companies are company information websites Kauppalehti (Kauppalehti Oy 2016a), Finder.fi (Fonecta Oy 2016) and Asiakastieto (Suomen Asiakastieto Oy 2016). These will be used to develop a census of active companies in the studied major industry. Other secondary sources and literature are used throughout to explain the theories and methods applied. Primary data

collection will be done using an original market survey sent to a number of companies in a segment that will be created through the segmentation process.

The study is *descriptive* in nature, meaning it describes a population (Coldwell & Herbst 2004, 9). There are two “levels” of a population that will be researched: the larger level is one chosen major industry of specialised retail trade that will be segmented to answer Research Question 2, and the second level is one of the segments studied in further detail through the market survey for Research Question 3. Studies that inspect the real potential of a product in a market are generally descriptive (Smith & Albaum 2012, 17). Descriptive research is not concerned with why its results occur, only what results occur (Coldwell & Herbst 2004, 9). This is reflected in the Research Questions.

#### 1.6 Research limitations

The study is not intended to perform the positioning part of the marketing research process (Chapter 1.2.1). Positioning is already heavily tied in properties of the product, and it is not yet known if there will be *any* worthy segments to target in the first place, so a lot of time could be spent in vain in studying the theory of positioning. Positioning would involve analysing competing background music providers and their presence in the studied industries (Blythe & Zimmerman 2005, 96), however major competitors are already known by the Company.

There will be a heavy reliance on a few public general sources about Finnish retail trade companies. General industry information is mostly limited to the review by Santasalo & Koskela (2015). Its estimations of store counts are based on 2013 counts, provided by Statistics Finland, which has since ended collecting this data and will not collect it in the future (Statistics Finland 2016a). This means that while the Santasalo & Koskela review includes the most recent store count data available, it is still a few years old. This could impact the choice of major industry (Research Question 1). Likewise, the website Kauppalehti will be used as

the basis for detailed secondary data collection about companies in the segmentation process. Kauppalehti may contain inaccuracies, though its company information comes mostly from the public YTJ Business Information System by Finland's Tax Administration and the Finnish Trade Register, and is updated daily (Kauppalehti Oy 2016b).

*Reliability* must be noted especially in the major secondary data collection process when the Kauppalehti website is used. Reliability means that multiple people doing the same research would consistently arrive to the same conclusions and could be ensured by repeating the process multiple times over (Smith & Albaum 2012, 145). A lack of reliability could be caused by mistakes in the manual data collection process or by missing information on a secondary source like Kauppalehti (Sharma 2012, 11). Unfortunately repeating the data collection process will be impossible in the scope of this study because the process will involve thousands of companies and take tens of hours. However, this process will be described in a clear manner so that it could be repeated by other people.

Addressing *internal validity* must be done while designing the market survey. Major concerns are to ensure that the chosen measurements measure what is intended and that there will be enough responses to base conclusions on (Hiltunen 2009, 5). Specific discussion on error prevention is included in Chapter 5. The *external validity* or *generalisability* of the survey will mean how specific the results will be to the larger population (Hiltunen 2009, 5). This will be further discussed in relation to sampling (Chapter 5.1).

## 1.7 Thesis structure

The thesis is comprised of *theoretical* and *empirical* parts. It should be noted that the thesis structure is built around the logical order of the research questions, instead of an order where all theory would be discussed before the empirical content. Most theory is introduced in Chapter 2 but theory relevant to Research Question 3 is explained later in Chapter 5.



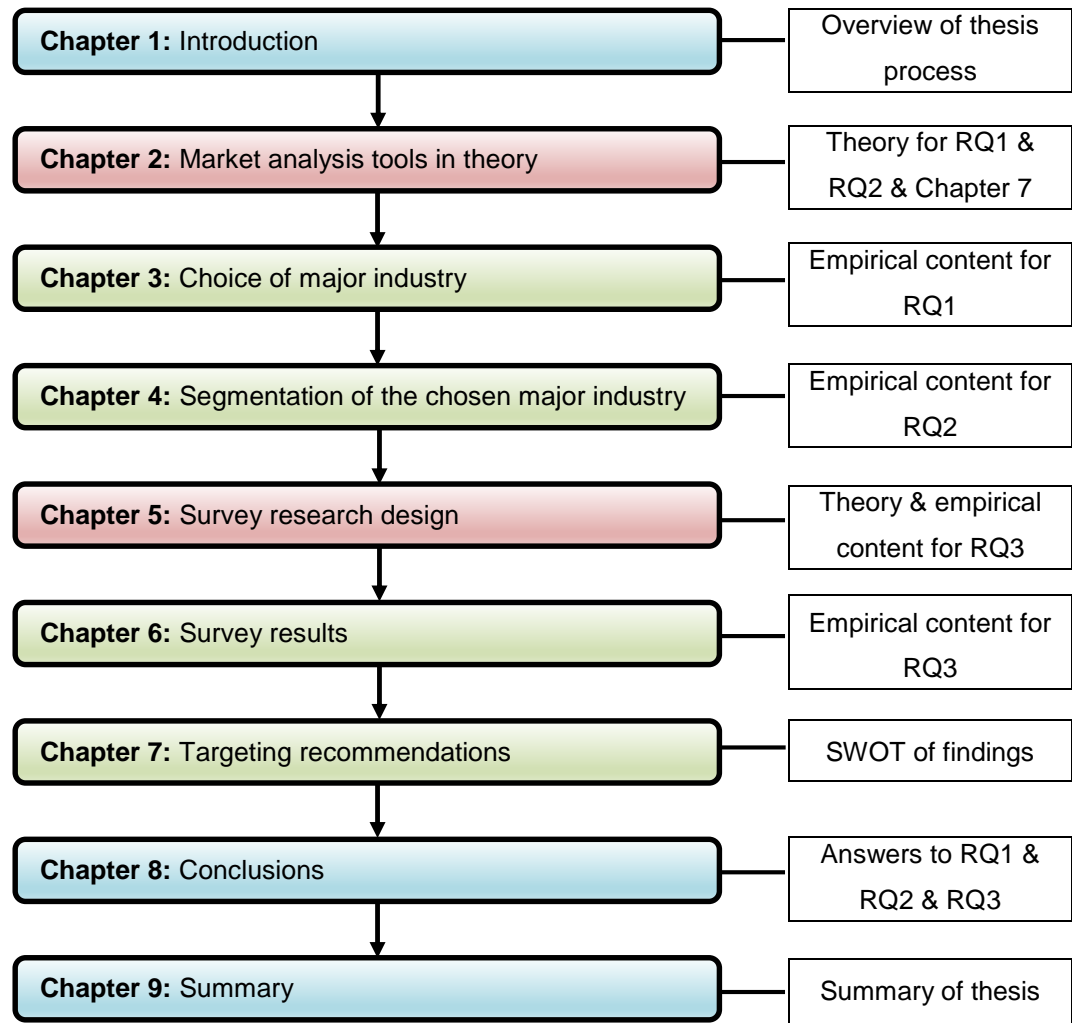


FIGURE 2. Thesis structure.

Chapter 2 introduces B2B market segmentation, targeting, total sales potential and SWOT analysis. Chapters 3, 4 and 6 apply theory to answer the three Research Questions. Chapter 5 mixes theory and empirical content: it details how a market survey should be created and analysed in the context of this study. During the writing process, it was found that this structure is the most efficient and easily readable option. Chapter 7 summarizes the main findings of the thesis in a SWOT analysis.

Other chapters are Chapter 1, 8 and 9. Chapter 1 explains the thesis process, prior to the majority of the research. Chapter 8 answers each Research Question and assesses the success of the research, and considers how reliability and validity were met. Chapter 9 shortly retells the complete thesis and contains several suggestions for future research topics.

## 2 MARKET ANALYSIS TOOLS IN THEORY

This chapter describes the required theory to answer Research Questions 1 and 2. Topics include, in the order that they will be applied in the empirical process, measurements of sales potential, the segmentation process, the targeting process and the SWOT analysis.

### 2.1 Calculation of total sales potential

*Total market potential* is “the maximum amount of sales that might be available to all the firms in a given industry during a given period, under a given level of industry marketing effort and environmental conditions” (Kotler 2009, 215). Total market potential works as a basic measurement for estimating how much more potential there is in industries that are currently served, or for comparing the attractiveness of various industries that are not. Industries that do not meet a set baseline of potential sales could be ruled out from strategical consideration and industries with the best potential can be looked into.

The simplest possible formula is (Kotler 2009, 215):

total market potential = number of real buyers on the market \* number of purchases per customer \* purchase price

The real number of buyers on the market is estimated by finding out the total population of *buyer candidates* and subtracting buyers that cannot or will not buy the product (Kotler 2009, 215). Secondary sources such as up-to-date public information of companies operating in industries can be used to find out their total amounts, while primary sources like market research or existing sales data from other markets can be used to estimate how many eligible buyers would buy the product (Kotler 2009, 216). Consulting experts like the senior management of the firm is called an “opinion-based method” which can also be valid for sales estimations (Lamb et al. 2012, 228).

Number of purchases refers to an expected average of purchases that can be sold to an average customer (a potential buyer who purchases at least once). Number of purchases can be estimated similarly to the number of buyers using primary or secondary sources. The same time frame should be used for all estimations, for example purchases per year or month.

The final component, Purchase price, is simply the price that the product will be sold at. Purchase price can also be turned to *gross profit* by reducing the *cost of goods sold*, which would be useful if the cost of goods sold can vary (as is the case with the Company) (Fight 2005, 237).

*Total sales potential* is measured by the same way as total market potential, but is restricted to a single firm, instead of every firm on the market (Sandhusen 2000, 297). Total sales potential will be suitable if it can only be estimated how many total buyers there would be for one's own product and not competitors' products.

## 2.2 Segmentation in B2B markets

A definition for *Segmentation* was given in Chapter 1.2.1. with an overview of its relation to other processes in strategic marketing.

Segmentation is used in B2B and B2C markets, but approaches vary. Wind & Cardozo (1974, 155) argue that the "only differences" are the *bases of segmentation* used. This means the specific terms and factors used to differentiate between companies in the market (Wind & Cardozo 1974, 155). As a specific base of segmentation that is different between B2C and B2B markets, Choffray & Lilien (1978, 18) recognised that in organisations, buying activities involve many interacting people whose buying decisions can be "limited by organisational selection criteria". The B2C equivalent to the organisational buying centre is the individual consumer, whose "psychographics" and other personal characteristics can be taken into account in segmentation (Verhallen et al. 1998, 5).

Falbey (2001, 23-24) argues for the existence of “three schools of thought” on the relationship of B2B and B2C segmentation. The arguments of each school are as follows:

1. The same tools and methods apply for segmenting both B2C and B2B market
2. B2B segmentation is fundamentally different from B2C segmentation
3. B2C segmentation approaches can be modified to work in B2B markets

To avoid delving further into the theory of B2C market segmentation, this study will assume the second school of thought. An additional, different set of three schools of thought is related to how many bases of segmentation shall be used in the process, and these are as follows (Dibb & Simkin 1996):

1. *Unordered approaches* do not even consider any bases of segmentation
2. *Two-step approaches* use the *macro* and *micro* levels
3. *Multi-step approaches* use more than two levels

An ordered segmentation process is often done on the macro and micro level (Hutt & Speh 2009, 136). These levels were originally invented by Wind & Cardozo (1974). When only macrosegmentation is conducted, segmentation occurs at a *single-stage*, and if microsegmentation is also done, the process has *two-stages* (Wind & Cardozo 1974, 159). Single-stage segmentation is still in the “school” of two-step approaches because some bases of segmentation are defined.

A macrosegment “is based on organizational characteristics and does not depend on any specific individual” (Falbey 2001, 38). Such characteristics are observable facts about the organisation, like its general demographical information, that can be easily obtained from secondary sources (Choffray & Lilien 1978, 19). Microsegmentation focuses on the *DMU*’s (decision-making units) of organisations (Wind & Cardozo 1974, 156) – *DMU*’s

involve organisational buyers, mentioned earlier. Microsegmentation requires the collection and use of primary data because the required information will not be public and microsegment data could be collected either with dedicated market research or with the sales force of the organisation (Hutt & Speh 2009, 131).

Wind & Cardozo (1974, 156) thought that conducting only single-stage segmentation can be enough and recommendable, simply so that if a particular macrosegment responds well to marketing, it should be pursued. This is a very practical approach but might leave some potential analysis undone (Dibb & Simkin 1996, 21).

TABLE 1. Macro and micro levels of segmentation

	<b>Macrosegmentation</b>	<b>Microsegmentation</b>
<b>Stages in segmentation process</b>	Single-stage	Two-stage
<b>Subject area</b>	Organisational characteristics	Decision-making unit (DMU) characteristics
<b>Data required</b>	Secondary	Primary

A *multi-step approach* considers something beyond the macro and micro levels (Weinstein 2011; Plank 1985). This additional dimensionality could result in a more complete segmentation process. Bonoma & Shapiro's (1984) nested model is, according to Weinstein (2011, 674), the first and the best-studied multi-step approach. No B2B segmentation models after Bonoma & Shapiro have even gained widespread attention (Weinstein 2011, 675).

### 2.3 Bonoma & Shapiro multi-step model of segmentation

The Bonoma & Shapiro model begins by studying general, easily available information, and progressively moves to more specific and less accessible

information through five levels (“nests”) of analysis. Through using the model, potential segments are gradually discovered, as they become defined in terms of the criteria of “accessibility, measurability and sustainability” (Freytag & Clarke 2001, 475). On application of the model, Bonoma & Shapiro (1984) explain that its factors may be interlinked situationally in practice:

*Factors in one nest affect those in other nests. [...] The nests are a useful mental construct but not a clean framework of independent units because in the complex reality of industrial markets, criteria are interrelated. The nesting approach cannot be applied in a cookbook fashion but requires, instead, careful, intelligent judgment. (Bonoma & Shapiro 1984)*

This is what truly distinguishes the multi-step approach from the two-step approach: unlike the strictly separate macro and micro levels, the five levels of Bonoma & Shapiro can affect each other and thus the multi-step approach is more flexible, though more complicated to understand (Dibb & Simkin 1996, 21). On the discovery of segments in the research process, Wedel & Kamakura (2012, 336) explain that segments can overlap with each other because they are constructed by the researcher for specific situations, instead of being only “found”:

*Segments are not homogeneous groupings of customers naturally occurring in the marketplace. Market segments are determined by the marketing manager’s strategic view of the market. Her/his perspective determines the way homogeneous groups of potential customers are to be identified by marketing research. For different strategic goals, different segments may need to be identified within the same population. (Wedel & Kamakura 2012, 336)*

In this way, segmentation is arguably somewhat qualitative and not entirely based on numbers.

Furthermore, missing data does not necessarily harm the use of the model:

*A company should not decide that an approach is not useful because data are lacking. The segmentation process requires that assessments of analytic promise*

*and data availability be made independently. (Bonoma & Shapiro 1984)*

Blythe & Zimmerman (2005, 85) created a slightly modified adaptation of the Bonoma & Shapiro model. Differences are outlined in Table 2 below. This revision includes more factors like Attitude Towards Seller & Product, Corporate Culture and Loyalty. Some of the newly added factors perhaps were not yet researched much at the time of the original Bonoma & Shapiro model. For example, more recent research shows that adding the Loyalty factor may have been an enrichment to the model, because satisfied customers tend to stay with familiar sellers (Fiol et al. 2009) (Naghbi & Sadeghi 2011).

TABLE 2. Two versions of a B2B segmentation model

<b>Level name (Blythe &amp; Zimmerman / Bonoma &amp; Shapiro)</b>	<b>Blythe &amp; Zimmermann (2005) bases of segmentation</b>	<b>Bonoma &amp; Shapiro (1984) bases of segmentation</b>
Demographics / Demographics	Industry, Size, Location, Financial Information, OEM/End User/Aftermarket	Industry, Size, Location
Operating variables / Operating variables	Technology, Heavy/Light User, Purchasing Centre Centralisation/Decentralisation, Product Requirements	Technology, Product & Brand-Use Status, Customer Capabilities
Purchasing Situation / Purchasing Approaches	New Task vs. Rebuy, Attitude Towards Seller, Buyer-Seller Relationships	Purchasing Function Organisation, Power Structures, Buyer-Seller Relationships, General Purchasing Policies, Purchasing Criteria
Vendor/Product Attributes / Situational Factors	Value, Quality, Reputation, Product Application	Urgency Of Order Fulfillment, Product Application, Size Of Order

Customer Variables / Buyer's Personal Characteristics	Buying Centre Make-Up, Purchase Importance, Corporate Culture, Attitude Toward Product	Buyer-Seller Similarity, Risk Management, Buyer Motivation, Individual Perceptions
Personal Characteristics	Risk Management, Loyalty, Personal Demographics	-

The Blythe & Zimmerman changes make the model also arguably easier to understand because each named factor includes only one factor, and factor names are given in a logical fashion. The Bonoma & Shapiro model includes price considerations as a part of the factors Urgency of Fulfillment and Power Structures, but does not treat it as a separate factor like Blythe & Zimmerman do in their factor Value.

Therefore, the Blythe & Zimmerman version of the model will be used. It is only an adaptation of the original model and the same underlying principles and assumptions still apply. All levels and bases of segmentation in the model can now be explained in detail, based on the original work of Bonoma & Shapiro and using the additions of Blythe & Zimmerman.

### 2.3.1 Demographics

Potential customers are first classified to *Industries*. This can be done using an existing formal industry classification system (Choffray & Lilien 1978, 19), like the Finnish TOL 2008 system (Chapter 1.5). *Size* can be measured in turnover but could also be measured by number of employees, amount of total capital invested in the company, or market share.

*Location* is geographical and could be measured on many scales like neighbourhood, city, province or country, depending on the overall real world distribution of the market in question. *Other financial criteria* could include factors like credit ratings.



Companies are classified by their use of the product to either *OEM's* (Original Equipment Manufacturer), *End Users* (that use the product, but not in the manufacturing of their products/services), or *Aftermarket Users* (that transfer the product/service to *their* customers). Companies can exist in multiple categories.

### 2.3.2 Operating Variables

Companies are classified to *Heavy/Light Users* on the basis of whether the product would have a major part in a company's operations or not. *Product Requirements* is used to distinguish between those companies that can be satisfied with the standard configuration of a product and those that require customized specifications. *Technologies* is understood as every technology available to customer companies that is relevant to the marketing of the product in question.

*Purchasing Centre Centralisation/Decentralisation* is about how the purchasing centre of an organisation operates and is comparable to the concept of microsegmentation discussed earlier. Karjalainen (2009, 12) explains *centralised purchasing* and *decentralised purchasing*. In centralised purchasing, one dedicated part of the whole organisation makes purchase decisions on behalf of all other parts of the organisation. In contrast, in *decentralised purchasing*, there is less formality, individual units of the organisation make their own purchases based on their own needs, and may commit to shorter contracts (Karjalainen 2009, 12). An organisation can have varying degrees of centralisation/decentralisation if reality is between the two extremes (for example, a company would centralise only the purchasing of certain supplies).

### 2.3.3 Purchasing Situation

The third level is about how purchasing would be influenced by more specific, situational factors. Bonoma & Shapiro (1984) called their level Purchasing Approaches "one of the most neglected but valuable methods of segmenting an industrial market". Two important reasons for such

neglect may be that this information requires extensive research and companies might not want to reveal it.

Classification can be done based on existing *Buyer-Seller Relationships* and *Attitude Towards Firm*, but only if the selling company has been involved in the market before. Attitude means simply “whether the potential customer has positive attitudes towards the selling firm” (Blythe & Zimmerman 2005, 91).

*New Task vs. Rebuy* examines if a company has purchased a product filling the specific need before or not. Kotler & Armstrong (2014, 193) mention that new task situations are “the marketers’ greatest opportunity and challenge”, as companies spend the most time, effort, and resources to find a solution, because they always perceive new purchases as the riskiest. In cases of new task purchases, it may then be suitable for marketing communication to take a more educational role. Rebuys can be classified into straight or modified categories: straight rebuys usually follow standard procedures, as companies remake old purchases without changing any specifications, while modified rebuys have some added decision-making complexity when the company wants to change prices or suppliers (Kotler & Armstrong 2014, 193).

#### 2.3.4 Vendor/Product Attributes

The factors *Value*, *Quality* and *Reputation* are about what potential customers prioritize in the product. *Value* is understood as the monetary value provided in comparison to other offerings on the market. *Quality* refers to any product-specific features and their quality, depending on what specific properties a company holds important. *Reputation* is the product’s existing reputation. The relative importance of each of the three is company-dependent.

*Product Application* is the manner and purpose in which the product would be used by companies in the segment.

### 2.3.5 Customer Variables

*Buying Center Make-Up* refers to the concept of the buying center, introduced by Webster & Wind (1972). The buying center are the people involved in the purchasing of products in a company. Webster & Wind (1972) classified these people to five different roles: *Users*, *Influencers*, *Deciders*, *Buyers* and *Gatekeepers*, who each have different motivations for making purchase decisions. Users are the real end-users of the product. Influencers can be any people who have a possibly unforeseen influence on the purchase (for example, good friends of the decision makers). Deciders are those who have the formal authority to make the buying decision. Buyers are those who negotiate deals with suppliers. Gatekeepers can be anyone who restrict information flow to the other people in the buying center. In practice, one person can fulfill multiple roles and not all roles necessarily exist (Webster & Wind 1972).

*Purchase Importance* is how critical the purchase is to the firm which may change depending on urgencies faced by the company at different times. *Corporate Culture* is also known as organisational culture. It is a complex subject that can be defined as: “the way in which members of an organisation relate to each other, their work and the outside world in comparison to other organisations” (Hofstede Centre 2016). Blythe & Zimmerman (2005, 92) highlight that corporate culture includes “the attitude toward innovation” on a general level, which is relevant for innovative products.

*Attitude Toward Product* is similar to Attitude Toward Firm on the Purchasing Situation level. Attitude Toward Product includes attitudes towards the whole product area, not only the specific product (Blythe & Zimmerman 2005, 92).

### 2.3.6 Personal Characteristics

This level is entirely about the individual person making the final purchasing decision: how capable they are in *Risk Tolerance*, if they have

significant *Loyalty* towards the seller, and how their age, experience and education affect the purchasing outcome (*Personal Demographics*). Studying this level is difficult, but could be worth it if individual customers have a lot of sales potential (Bonoma & Shapiro 1984).

#### 2.4 Criticism and problems of segmentation

Segmentation, by nature, is (Palmer & Millier 2002, 3):

- 1) *Context-dependent*, as models may not always apply to reality – noted by Bonoma & Shapiro (1984) in their model
- 2) *Interactive*, meaning that the supplier, buyer and environment change over time – the bases of segmentation that have been chosen should be evaluated and modified over time as needed. This is called the need to *re-segment*, because customer segments, competition and technological advances do not stay fixed over time (Blythe & Zimmerman 2005, 94)
- 3) Difficult to *perform*, as literature is conflicting, and so managers do not have the time to study segmentation. For example, it is not even universally agreed if segmentation is a whole marketing strategy, or just one part of marketing strategy (Falbey 2001, 61).
- 4) Difficult to *implement*, as it requires co-operation with other departments of the organisation. People doing segmentation have to particularly consider implications for other members of the organisation, involved in sales, marketing and distribution due to the changes that targeting new segments would require (Dibb & Simkin 1996, 20)

Bonoma & Shapiro (1984) outlined problematic “outcomes” that their model should address when used correctly, but they could also apply to incorrect uses of the Bonoma & Shapiro model. These problems are related to the thinking and skills of the market researcher. One problem is doing no segmentation because the scope of segmentation is perceived to be too large. The second problem is basing the whole segmentation process on existing experience from the current customer base, effectively

skipping the first “P” of strategic marketing (market research). A third problem is doing “superficial segmentation” where parts of segmentation are skipped because they are too difficult to perform. An example of this is “sectorisation” which is often confused for segmentation (Simkin 2008, 466), where the actual behaviour and needs of potential customers are not considered and focus is on a few easily-accessible, surface-level facts like trade sectors (Simkin 2008, 464). Sectorisation might be done as the starting point for segmentation (as it will be done in this study) but Simkin (2008) argued that it should not be the *end* of segmentation.

A final problem is presenting segmentation reports in a too complicated manner, which leads to management skipping them (Bonoma & Shapiro 1984).

## 2.5 Targeting

Evaluation and choosing segments is called targeting (Chapter 1.2.1).

Kotler (2009, 357) (originally in 1994) developed five criteria that should be fulfilled by a segment for it to be considered relevant. These criteria could be used as a quick practical test to see if a segment is worth further consideration or not. In Kotler’s view, segments should be:

1. **Measurable** in size, purchasing power, other characteristics
2. **Substantial**, so that there are enough potential customers in the segment so that it could be profitable to target
3. **Accessible** for communication, logistics and marketing
4. **Differentiable** enough to distinguish from other segments
5. **Actionable** by the company in question so that it has the capability to serve the segment

Freytag & Clarke (2001, 481) criticized Kotler’s five criteria for three reasons: the relative importance of each point is not defined (though perhaps each is equally important and Kotler did not find further rankings necessary), the company in question is not considered (though its capacities partly are, in the “actionable” part), and business strategy is not

included. In other words, Freytag & Clarke's issue seems to be with the lack of situational specificity in Kotler's model. Still, Kotler's criterion could be used as a quick and practical test to see if a segment would be worth further investigation.

Freytag & Clarke (2001, 481-484) then created a more detailed selection process model for identified segments. Although it is rather complicated, the authors mention that "the process can be run through in more or less detail depending upon the importance of the reason for the segmentation" (Freytag & Clarke 2001, 482).

The process is comprised of four areas that are examined in order: future attractiveness, resource demands, management, and organisation. Future attractiveness is concerned with how much growth potential there is in the segment, and with comparing the potential risk against profit. Resource demands asks if the company could serve the segment's specific needs with its existing resources (thus adding some of the case relevancy that Freytag & Clarke criticized Kotler for). The Management part is simply about if the company management or relevant decision-making individuals agree with pursuing the segment. Organisation is the final level before choosing the segment, and it is similar to the Resources level but asks what organisational capabilities are demanded.

The process works so that if the questions on one level can be answered satisfactorily, the analysis can move to the next level. If the final level, Organisation, is passed, the segment can be chosen for positioning (Chapter 1.2.1). However, shortcomings on one or more levels do not necessarily have to prevent that segment from being pursued. If, for example, a particular resource is found lacking in terms of what the segment would demand, an action plan could be developed to correct the situation if the segment is seen as being worth it. (Freytag & Clarke 2001, 483)

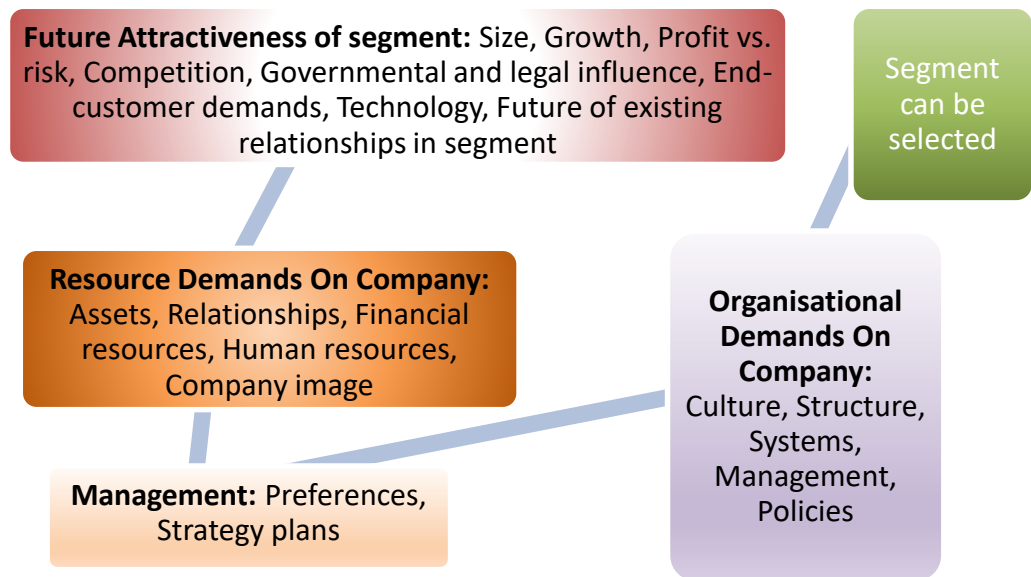


FIGURE 3. Segment selection process. Adapted from Freytag & Clarke (2001)

Finally, choosing the *amount* of segments to target is done on a scale ranging from one segment to a coverage of the complete market. (Kotler 2009, 357)

TABLE 3. Targeting patterns (Kotler 2009, 357):

Targeting pattern	Description
Single segment	The company sells only one product to only one segment
Selective segmentation	The company sells different products to segments unrelated to each other
Product specialisation	The company sells only one product to as many segments as possible
Market specialisation	The company sells many products, all tailored for one segment
Full-market coverage	The company sells as many products as needed to address every segment on the market

The appropriate amount depends on the adaptability of the product for different segments and the overall company strategy (Kotler 2009, 357).

## 2.6 SWOT Analysis

A SWOT analysis is a versatile, simple tool used to list internal *strengths* and *weaknesses*, and external *opportunities* of *threats* facing an organisation (Suomen Riskienhallintayhdistys r.y. 2014). It can be used in any specific situation, including the analysis of markets (Suomen Riskienhallintayhdistys r.y. 2014). The tool reviews what capabilities are strong and which are not, and what external factors should be taken into account in planning, in the context of the situation.

There are three distinctions to be made between the elements of the SWOT framework: internal and external, present and future, and positive and negative factors (Suomen Riskienhallintayhdistys r.y. 2014):

- Strengths are current factors related to the organisation itself that help success
- Weaknesses are current factors in the organisation that prevent success
- Opportunities are possible future factors that could help success but that are not in control of the organisation
- Threats are possible future factors that can prevent success and are uncontrollable by the organisation

A common criticism regarding the application of the tool is that users try to find ways to forcibly place real factors into the framework in some artificially balanced way, leading to a loss of context (Valentin 2014, 160). Users should remember that it is not a complex tool and is simply a listing of identified factors affecting strategy (Everett 2014, 63). Everett (2014, 65) also argues that in particular, the meaning of “Opportunity” is interpreted too literally and confused for internal Strength factors, without understanding that Opportunities are fully caused by the environment.



### 3 CHOICE OF MAJOR INDUSTRY

In this chapter, the simple formula of total sales potential (Chapter 2.1) is applied to compare the major industries of specialised trade to answer Research Question 1.

The number of real buyers on the market is best calculated using amounts of stores instead of the amounts of companies in each industry. The amount of store locations will regardless have to be calculated separately for each analysed company, because it affects the number of purchases: Product X is sold to each location individually. Thus the unit used of estimated total buyers is defined in store locations and the estimated amount of purchases is set to one Product X licence, per store location, per month. As number of purchases is then a multiplication factor of one, it can be effectively removed from the formula.

The purchase price component can be modified to gross profit for more accurate comparisons between different industries, because in the case of background music provider companies in Finland, the cost of sold services varies depending on industries. This would allow better comparison between the profitabilities of retail industries to other industries that the Company operates in.

#### 3.1 Teosto and Gramex costs

The cost of sales component of gross profit comes from music copyright holders' associations Teosto and Gramex. Music streaming service providers must pay both organisations separately for each location that music is streamed to. The Teosto fee is either a 6% royalty rate or a minimum of 7.50€, if 6% of the monthly service price of a streaming service excluding tax is less than 7.50€ (Teosto r.y. 2016b). Assuming that for the retail industry, the standard price of Product X would be set to 79€ (excl. value added tax), 6% of 79€ would be 4.74€, so the minimum price 7.50€ is used.

The Gramex fee varies depending on which industries music is sold to and how many total locations music is sold to. For retail stores, the fee is fixed to 17.50€ per store if music is provided to up to 200 locations, and marginally reduced to 14.50€ if music is provided to at least 201 locations (Gramex r.y. 2016).

Now that the Teosto and Gramex fees are defined and a standard price of 79€ is assumed, the gross profit per location would be 54€ with below 200 customers ( $79 - 7.50 - 17.50 = 54$ ) and 57€ with above 200 customers ( $79 - 7.50 - 14.50 = 57$ ).

### 3.2 Potential amount of buyers

Existing sales data from other industries and opinion-based methods can both be used to estimate total numbers of buyers (see Chapter 2.2).

According to existing internal sales data and the current minimum monthly rate of growth, 4.9% of the most important current market in Finland are expected to be captured as customers in mid-2017. According to a conversation with the management of the Company, in that same market, up to 10.5% have been captured as customers in another country that the Company operates in.

This gives both a minimum and maximum estimation. To avoid overestimations or underestimations, the mean of both could be used for a figure that mixes the more conservative estimate with the higher value.

This is 7.7% ( $(4.9 + 10.5) / 2$ ).

### 3.3 Total gross profit potential of specialised retail stores

Santasalo & Koskela (2015) report 2013 estimations of the amounts of stores in the eight major industries of specialized retail stores. While 9.7% of 1000 Finnish companies in 2016 used commercial background music services (Innolink Research Oy 2016a, 1) it is not known what proportion of the 323 retail stores that participated answered with this answer (also,

the question had multiple answer choices). Without knowing more about the state of the background music industry in retail trade specifically, and because existing sales data and expert opinions can be used for estimating total buyer amounts, the medium-estimate of 7.7% buyers in the market will be applied. Gross profits per location are from Chapter 3.1.

TABLE 6. Estimated monthly gross profit for major industries of specialised retail. Adapted from Santasalo & Koskela (2015).

Major industry of specialized retail	Minor industries in major industry	Estimated amount of stores	Total buyers at 7.7% of major industry (rounded)	Potential gross profit per month
Home decoration	17	4200	323	$323 * 57 = 17442\text{€}$
Leisure	12	4200	323	$323 * 57 = 17442\text{€}$
Fashion	8	3200	246	$246 * 57 = 14022\text{€}$
Health and wellness	5	2700	208	$208 * 57 = 11232\text{€}$
Hardware and construction	6	2000	154	$154 * 54 = 8316\text{€}$
Service and gas stations	2	1892	146	$146 * 54 = 7884\text{€}$
Technology	5	1800	139	$139 * 54 = 7506\text{€}$
Alcohol	1	351	70 (20%, see explanation)	$70 * 54 = 3780\text{€}$

It should be noted that 900 locations of the home decoration industry (5100 in total) are non-eligible for Product X (like kiosks and flower stores) (Santasalo & Koskela 2015, 114). This is reflected in Table 6.

Another noteworthy industry is specialized stores selling alcohol, because the Finnish state monopoly Alko Oy controls it. Entering this industry could be tried by approaching Alko Oy and if successful, tens of locations could be captured at once. The estimation of real buyers in this industry should be done using a different rate than the reference rates from the current

main market, because all locations belong to one company. It could be estimated that up to 20% of Alko stores might incorporate Product X, in the unlikely case that the company became a customer.

### 3.3.1 Final choice

It was initially planned that the most profitable major industry would be chosen for the segmentation process. However, the minor industries in the major industry should also be similar to each other. If there are many small industries, the segmentation process could lead to unfruitfully small segments (see Chapter 2.5). Home decoration has the most stores but is too complex industry-wise to be considered for the segmentation process or for the market survey. Leisure is also too varying, as it has 12 industries specialized in a wide range of products, ranging from guns to music.

In the fashion retail industry, larger segments could be formed and survey results could be more generalisable than in either home decoration or leisure, because there are fewer industries and they are more closely comparable with each other (all sell clothing). Up to 34% of companies in fashion are part of a chain including multiple store locations (Santasalo & Koskela 2015, 98-99). The overall trend is that small stores are disappearing and transforming into chains (Santasalo & Koskela 2015, 102) (Räisänen 2016). This reduces the total amount of companies that have to be analyzed, and in the Company's experience, customers with multiple locations return the greatest revenue for the least amount of sales work.

The amounts of store locations in home decoration and leisure have been decreasing since 2008 and 2009 respectively (Santasalo & Koskela 2015, 108, 114), but the amount of fashion retail stores may be largely stable (Santasalo & Koskela 2015, 102). Recently the growth of online shopping and decreasing purchasing power due to economic recession have hurt sales in the fashion industry, but overall the outlook does not seem overwhelmingly negative and stores selling men's clothing are actually growing fast (Räisänen 2016).

## 4 SEGMENTATION OF THE CHOSEN MAJOR INDUSTRY

In this Chapter, the segmentation process (Chapter 2.3) and the selection tools (Chapter 2.5) will be used for the fashion retail industry that was chosen (Chapter 3.3.1). First, data about companies operating in fashion retail must be collected using the TOL 2008 industry classification system (Chapter 1.5).

### 4.1 Secondary data collection process

It must be determined what data will be collected. The main considerations are how the Size and Industry variables of the Blythe & Zimmerman (2005) model are measured.

For Size, the best fitting measurement is the amount of store locations that a company has. Amounts of stores should be public information for every clothing retail company, unlike, for example, annual sales revenue. The more important reason is that each business location that Product X can be installed in adds a new source of revenue and is most often equal to a whole new customer company (or slightly less if discounts are given on the basis of multiple locations).

For Industry, the process should be limited to the largest industries of fashion retail, which are women's fashion, men's fashion and general sales of fashion (TOL 2008 classes 47711, 47712 and 47719) (Santasalo & Koskela 2015, 102). Excluded industries are listed in Chapter 4.1.1.

Now this process can be defined as mapping all stores and store chains operating in chosen industries of the fashion industry, done by manually going through every company in relevant industries and counting how many stores there are under each company.

#### 4.1.1 Exclusion of Bestseller and small industries

Bestseller Retail Finland Oy is considered to be special case and its stores are not counted to save time. This multinational company controls seven

major international brands like Jack&Jones and Vero Moda which in total have at least 144 stores in Finland (Santasalo & Koskela 2015, 100). It is thought that this industry leader would likely be too large for the Company to address and may already use a standardised music solution across their stores. Franchisees of Bestseller, like a company named Kotkan Garderobi Oy (Koski 2012), are also cut in this pre-segmentation stage.

The following industries are not counted because they are a minority of stores and would form very small segments (Santasalo & Koskela 2015, 102):

- Children's clothing stores (TOL class 47713)
- Fur stores (TOL class 47714)
- Hat stores (TOL class 47715)
- Shoe stores (TOL class 47721)
- Handbag stores (TOL class 47722)

Also, Santasalo & Koskela (2015, 102) report that 200 stores sell children's clothing and 500 sell shoes or handbags. Taking 3200 stores and reducing 144 Bestseller stores, 200 children's clothing stores and 500 shoes & handbag stores results to a total of approximately 2356 total stores which mostly should be classifiable to women's, men's or general clothing.

#### 4.1.2 Process description

A flowchart of the process is available in Appendix 2.

An initial list of companies was created using the company information directory Kauppalehti. At the time of writing, there were 3600 companies in the three classes in total: 80 in men's fashion, 821 in women's fashion and 2699 in general fashion.

Company information websites Fonecta, Finder.fi and Asiakastiето were also used to find out further confirmations of activity status and applicability, and company names, addresses and business identification

numbers were searched on the search engine Google to find company websites. It can be reasonably assumed that active companies have a website because 98% of Finnish retail store companies had a website in 2015 and 65% were on social media (Statistics Finland 2015).

First, it was checked which companies were inactive. A company was marked as *inactive* if its Kauppalehti page had one of the following statuses:

- "lakannut" ("ended")
- "toiminta keskeytynyt" ("operations halted")
- "selvitystila" ("in default")
- "konkurssi" ("bankrupt")
- If their income tax duty had ended. This means that the company's sales revenue is less than 10000€ in each financial year and so their business operations are considered very small (Verohallinto 2016).

Some company websites had a message reminding customers of a final closing sale or another clear notification of closing that was not on the Kauppalehti page of the company. Some companies were so new that there was no information available on them online.

Companies were marked as *not applicable* if:

- The description of their operations on their Kauppalehti page did not include a mention of retail sales (of clothing)
- The company name includes "konkurssipesä" ("bankruptcy estate") or "kuolinpesä" ("estate of a deceased person")
- They focus on excluded fashion industries listed in Chapter 4.1.1
- They sell used clothing, wedding dresses, or accessories, or are clothing designers, tailors, sewing services or other misclassified companies
- They were pop-up stores that will only be active for a fixed time at one location

Stores that sell some other items than clothing were allowed only if their main product category was clearly clothing fitting to one of the three major industries.

A complication with counting locations is that large clothing store chains can have local companies representing them in different areas. The decision was made to count the stores of chains under the account of one company, and so the remaining companies for each chain were marked inactive or not applicable. This simplification helps preventing duplicate counts of the same stores.

#### 4.2 Collected company data

524 out of a total 3600 companies were marked active. For these 524 companies, a total of 1338 active stores and store chains could be identified.



FIGURE 4. Counted stores by industry.

The 1338 identified stores are only 56.79% Santasalo & Koskela's (2015) 2356 stores (Chapter 4.1.1.) This discrepancy is partly explainable by stores for which no information was found. There was not enough information to identify 243 companies (6.75% of total 3600 companies)



and it is unknown how many stores these 243 companies hold. This occurred if nothing about a company was found with a Google search or if a company address was located in a shopping mall and had competitors' stores at the same address, making it impossible to identify the correct store (company names and store names are not always the same).

A more significant explanation is existing industry misclassification. Its exact effect cannot be measured in this thesis but it must be very major and was underestimated before the stores were counted. Industry codes on the Kauppalehti website come from The Business Information System YTJ (Kauppalehti Oy 2016b), which can originate from either the company itself or the Finnish Tax Administration (Finnish Patent and Registry Office 2016). As an example, a company representing the international Esprit chain was not found. Esprit is one of the significant international actors in the Finnish market (Santasalo & Koskela 2015, 99). The closest company match seems to be "Esprit Retails B.V. & Co. KG." which operates in the TOL subclass 47912, which represents online retail trade of clothing. Another example is a company called Naisten Pukutehdas Oy, which fully owns 8 stores but is in the TOL class 14130 that represents "the manufacturing of jackets, suits, pants, dresses etc.". This is because they do manufacture clothing.

#### 4.3 Practical definition of segmentation levels

It is now determined how the levels of the Blythe & Zimmerman (2005) model (Chapter 2.3) are best applied in practice. This subchapter explains which bases of segmentation can be defined based on secondary data, which factors should be investigated using the market survey, and which factors cannot be reasonably investigated. It should be remembered that the Bonoma & Shapiro model does not necessarily require that every variable can be fully identified, and that segmentation models may not always describe reality (Palmer & Millier 2002, 3).

#### 4.3.1 Demographics

Size and Industry were already defined in the data collection process (Chapter 4.1) as the number of stores a company or chain has and as the three most relevant TOL 2008 industries. Regarding Location, the Company has no requirements or preferences caused by logistics operations. Logistics costs are small and mostly only occur when an employee pays a special visit to a customer. However, it would be wise to target businesses located in areas where they receive high customer traffic. There is an undetermined minimum threshold number of daily visitors that a business needs to have to gain benefit from Product X. Another reason to target businesses located in areas with high amounts of customers is that they could be more successful and less likely to end their business activity, which would terminate a revenue source. The best locations are in major city centers and shopping malls (Valli et al. 2015, 49). In this case, Location is also linked to the Heavy/Light User factor on the Operating Variables level.

On the axis of OEM/End User/Aftermarket, all businesses are considered End Users due to the nature of the product (clothing stores will not sell background music or incorporate it into manufacturing). Other financial information is not available for all companies and is not considered.

#### 4.3.2 Operating variables

For Technology, the most relevant question is if stores already have an audio system with loudspeakers, which means that they would already use music (it was already earlier confirmed that Finnish businesses most likely have computers with internet connections). This minimizes the need for new hardware investments required to use Product X. This can be investigated later with the market survey.

The question of Heavy/Light user is, in this case, linked to a high-traffic Location (Chapter 4.3.1) and also to how long a store is open in a week,

which is almost always found on store websites. Stores that are open longer can extract more value from Product X for the same price.

Two general assumptions about degrees of Centralisation and Decentralisation that can be made are that larger and international companies have more centralised purchasing centers than smaller or Finland-based companies. For small chains, it might be easy to find the contact information of a suitable decision maker on their website. In large chains fully owned by their parent company, like Dressmann, individual stores may not have any control in their purchasing, making their purchasing functions centralised. This is important not only for the sales process but also later when collecting survey responses, as respondents to the survey should ideally be managers with appropriate decision-making power to potentially purchase Product X.

The survey will investigate Product Requirements.

#### 4.3.3 Purchasing Situation

It would be easier to sell Product X to stores that already use some music solution (Rebuy instead of New Task) because then they already would have audio equipment – this is connected to Technology on the previous level and can be investigated with the market survey.

As the Company is unknown in the retail industry, any Attitude Toward Firm would be formed during the initial sales call and is unpredictable.

There are no Buyer-Seller Relationships to clothing retail stores that could be used to gain insight into the industry or as sales leads or other advantages.

#### 4.3.4 Vendor/Product Attributes

No judgments about Value, Quality or Product Application can be made based on secondary data – the market survey should be used. Reputation is not applicable for the same reason as Attitude Toward Firm.

#### 4.3.5 Customer Attributes

Assumptions about the size of the Buying Center Make-Up can be made in the same manner as Centralisation/Decentralisation. Each employee in small single-store companies might have some role in the Buying Centre. In chains with a decentralised purchasing centre, individual stores would have comparatively less influence. An assumption is made that companies with the least amount of stores have the most Buying Center members at their store locations. This is important because it affects the survey that will be sent (its recipients should be people involved in the purchasing centre).

Purchase Importance and Attitude Toward Product can only be estimated using the survey.

As for Corporate Culture, a general open-mindedness towards innovation in the organisation would be helpful, but this factor cannot be investigated in the scope of this project.

#### 4.3.6 Personal Characteristics

Despite its influence on segmentation, this level will remain unknown, as the relevant decision-making people cannot be identified even through the survey.

### 4.4 Formation of segments

Now that secondary data of the market has been collected (Chapter 4.2) and each factor of the segmentation process is defined (Chapter 4.3), in this subchapter, segments are created by applying the Blythe & Zimmerman (2005) model.

#### 4.4.1 Segments 1 and 2: Large chains

20 store locations could be an appropriate minimum to consider chains "large". Together, the below 10 companies control 505 stores which is

37.74% of all active stores (505 out of 1338). It is important to note, however, that some chains could be missing because of industry misclassification (Chapter 4.2).

TABLE 7. Chains with over 20 locations.

<b>Company name</b>	<b>Store count</b>
Seppälä Oy	90
Dressmann Oy Ab	78
H & M Hennes & Mauritz Oy	62
Lindex Oy	61
Kapp Ahl Oy	59
Cubus Finland Oy Ab	40
Texmoda Fashion Group	38
Marimekko Oyj	31
BikBok Oy	23
Oy CHANGE of Scandinavia Finland Ab	23
<b>Total</b>	<b>505</b>

Note that the above store counts slightly differ from Santasalo & Koskela (2015, 100) which was based on 2013 data. Most notably, Seppälä closed about 40 stores in a crisis in 2014-2015 (Iltanen 2015) – however, they have started opening new stores since (and grown from 82 to 90).

Detailed consideration of Location is not necessary, as it is assumed that large chains have rigorously chosen at least mostly suitable store locations for their stores – chains “only accept the best locations” (Santasalo & Koskela 2015, 99). Stores in all of these chains can be generally classified as Heavy Users: they are open six or seven days a week for more than six hours.

It is assumed that the larger the chain, the more likely it is that they are on the centralised side of purchasing. All of the companies are assumed to be centralised, the largest chains Dressmann and Seppälä to the extent that individual stores have no control over purchases like Product X. Buying Center Make-Up is surely affected by whether a company is based in Finland or is controlled from abroad. International chains may or may not

have their purchasing decision-makers abroad Finland, which would be out of the reach of the Finnish office of the Company.

Applying the roles developed by Webster & Wind (1972) (Chapter 2.3.5), it could be speculated that in large chains there would be at least an overall country manager (Decider/Gatekeeper), a dedicated product/purchasing manager (Decider/Buyer) overseeing purchasing for the whole country area, and individual store managers (Users) who might be responsible for routine purchases like how much products to order, but not for matters affecting store environment planning like Product X. Additional Gatekeepers and Influencers may be people on the same level of organisational hierarchy, or above it, that the country managers and product managers would be. In companies based outside Finland, these people might be impossible to identify or reach with the Finnish office of the Company.

Therefore, two Segments 1 and 2 are formed on the basis of whether chains are entirely based in Finland or not. Marimekko and Texmoda (Table 7) must be excluded, because their degrees of centralisation and Buying Centre Make-Ups are different (detailed in Chapter 4.4.2). As a result, Segment 2 consists of only one company: Seppälä Oy, which has their head office in Finland (Nalbantoglu 2015).

TABLE 8. Segment 1.

<b>Company name</b>	<b>Store count</b>
Dressmann Oy Ab	78
H & M Hennes & Mauritz Oy	62
Lindex Oy	61
Kapp Ahl Oy	59
Cubus Finland Oy Ab	40
BikBok Oy	23
Oy CHANGE of Scandinavia Finland Ab	23
<b>Total</b>	<b>285</b>

Any remaining variables are unknown without the survey, which cannot be sent to any large chains for a few reasons. It must be assumed that

employees at stores are eligible participants, because if they are not, then the relevant person is someone else like a regional purchasing manager. That limits the potential pool of participants at worst to only one person for each chain, making the sample size very small (sampling is discussed further in Chapter 5.1). If a survey is sent to multiple stores of the same chain, communication between the recipients of the survey could affect the responses, but data must remain unpaired (see Chapter 5.3). Even worse, the invitation e-mail could be interpreted as a form of spam or mass marketing if people in the organisation would notice that it has been sent to every store.

#### 4.4.2 Segments 3 and 4: Medium chains

Logically, the next segments would be chains that share other variables with Segment 1 but are size-wise smaller (10 to 19 stores). This could affect centralisation and Buying Center Make-Up.

TABLE 9. Chains with 10-20 stores.

<b>Company name</b>	<b>Store count</b>
Halonen – Espa Oy	16
Brothers Clothing Oy	12
JC Jeans & Clothing Oy	15
<b>Total</b>	<b>43</b>

The larger physical size of the Halonen stores does distinguish them from other clothing stores, because they are department store size (Veljekset Halonen Oy 2016). Therefore, additional sales could possibly be done for different areas of the store environment, as is currently done with Product X (this allows companies to setup their music preferences differently in each area if needed). Also, as Finnish origin is used to determine the size of the Buying Center Make-Up, Halonen is technically its own Segment 3 and the other two companies are Segment 4.

#### 4.4.3 Segment 5: Texmoda and Marimekko

The characteristics of the Texmoda Fashion Group (38 stores) and Marimekko Oyj (31 stores) are distinctly different from other large chains. They seem highly decentralised, with many separate buying centres in each, but are also chains, so gaining customers in either group could be a sales path to access more customers.

Texmoda Fashion Group (Table 7) is a co-operative instead of a limited company. The members of co-operatives (in this case, entrepreneurs) are assumed to have more decision-making power than the managers of stores would have in limited companies and therefore Texmoda can vary in its degrees of centralisation. Texmoda contains at least two major chains in itself: Moda (33 stores) (Texmoda Fashion Group 2016) and Jim&Jill (5 stores) (Jim&Jill 2016). Moda has its own stores, as well as members who have seemingly independent decision-making power, to the extent that they can brand themselves with their unique name and logo that includes the Moda name, and may only list their own stores on their websites (Moda Laakso 2016).

Marimekko is also noteworthy for working with smaller companies and independent entrepreneurs by supporting “internal entrepreneurship” (Marimekko Oyj 2016). These entrepreneurs do not operate under a strict franchising model where they would have to execute Marimekko’s strictly defined store concept (Siilasvuori 2014) (Järvikylä 2015). The largest company using the Marimekko brand (that is not Marimekko Oyj itself) seems to be Boulevard Oy, which holds 14 stores of the chain (Jii 2015).

#### 4.4.4 Segment 6: Small Finnish stores and chains

There is a need to define a segment to which a market survey can be sent to, and the earlier Segments 1 and 2 will not work. With smaller chains, individual stores are more likely to have decision-makers who are able to answer the survey (certainly with companies that have only one store). This maximizes potential respondents. Size is set between one to nine



stores per company to increase the participant pool but to distinguish between this and the medium-size Segments 3 and 4.

Regarding Decentralisation/Centralisation and Buying Center Make-Up, there are a few international small chains like Guess (4 stores) and Hilfiger (2 stores) that might have small enough buying centers, but can have further international Deciders, Gatekeepers and Influencers that would make them different from the rest of the segment. Thus only companies that have an entirely Finnish origin are included.

Defining Location more accurately is necessary because small stores are not always in high-traffic areas. Location should focus on large cities and shopping malls, where other fashion stores and the largest populations of consumers are found – these locations are also best protected against online retail (Valli et al. 2015, 49). The 15 largest cities are presented in Table 10 below and were retrieved from Statistics Finland (2016b) on 15 October 2016. The largest malls are Ideapark (Lempäälä), Mylly (Raisio), Zeppelin (Kempele), and Pasaati (Kotka) (Finnish Council of Shopping Centres 2016). Location is set to the 15 largest cities in Finland, and the named malls.

TABLE 10. Largest 15 cities in Finland (Statistics Finland 2016b).

City	Approximate population
Helsinki	633523
Espoo	272642
Tampere	227113
Vantaa	217847
Oulu	199828
Turku	186893
Jyväskylä	137976
Lahti	119201
Kuopio	112613
Kouvola	85553
Pori	85240
Joensuu	75595
Lappeenranta	72688
Hämeenlinna	67871
Vaasa	67420

In terms of Heavy/Light User, stores that are not open at least 35 hours a week (7 hours per day, 5 days) are not considered. This is done because smaller companies may not have the capability to be open six days a week, as they may have less staff.

These criteria amount to 192 companies controlling 265 stores.

#### 4.5 Segment evaluation

In this subchapter, the formed segments are evaluated, compared and rejected according to Kotler's and Freytag & Clarke's criterion (Chapter 2.5). 314 active identified companies did not fit into any segments.

When considering the right amount of segments to target (Chapter 2.5), the Company is in its current markets following a *product specialisation* pattern, meaning that the same product is sold to whichever segments will buy them. In the case of this potential new market, and in the context of seeking segments for a single product, the targeting pattern is also based on a product specialisation strategy. This means that there are no limits placed on how many segments can be chosen.

TABLE 11. Summary of identified segments.

Segment	Name	Stores	Companies	Description
1	Large international chains	285	5	International chains, 20+ stores each, centralisation
2	Seppälä	90	1	A Finnish chain, 90 stores, centralisation
3	Halonen	16	1	A Finnish chain, 16 department stores, centralisation
4	Brothers and JC	27	2	International chains, 12 & 15 stores, centralisation

5	Texmoda and Marimekko	69	2*	Two Finnish brands with more, smaller companies inside them, 30+ stores, buying center on
6	Small Finnish stores and chains	265	192	Finnish chains, 1-9 stores, buying center on store level

*\* (Note that both Texmoda and Marimekko contain some smaller companies so actual amount of companies and stores may be higher.)*

#### 4.5.1 Kotler's criteria

**Measurable:** All segments are measurable because primary research sets confirmed minimum store counts for each. If there are errors, real counts are likely to be higher (see Chapter 4.2). Such errors would affect the large chains the most, because a single omitted company could mean that tens of stores are missing from final counts.

**Substantial:** Except for Segment 6, the amounts of companies are low, but every chain does have a substantial enough amount of stores. Even the smallest chain, Brothers Clothing Oy with 12 locations would in total bring 648€ ( $54 * 12$ ) of gross profit per month (see Chapter 3.1 for formula). However, individual companies are less potential customers in Segment 6 because most have only one store.

**Accessible:** Marketing-wise, the Company often collects information about members of the buying center and other decision-makers by approaching companies at the business location level, if nothing else is known. If the relevant decision-maker is not accessible through that location, a sales call still helps gauge users' interest in Product X. Logistically, it is assumed that customers would be visited which is not a problem but there is a small chance that Segments 1 and 4 would not fulfill this criterion if the relevant decision-makers are abroad.

**Differentiable:** Each company in every segment can be named and each segment is characterised differently, so differentiability across segments has been achieved.

**Actionable:** This is the greatest strength of the process, as there are practically no investments involved in trying out the market.

#### 4.5.2 Freytag & Clarke's criteria

**Future Attractiveness of Segment:** Growth outlooks are neutral to positive for all but Segment 6. Small stores are disappearing and large chains are taking over (Chapter 3.3.1). 79.69% of Segment 6 (153 out of 192) are single-store companies and are threatened by this trend. With rigorous following of the Freytag & Clarke model, Segment 6 is not considered anymore because this is not something the Company could change.

Future profit is positive for Segments 1-5 because experience of the Company shows that entire chains can be gradually captured following one successful sales initiative. At the highest end, Seppälä Oy's 90 stores could eventually amount to 4860€ gross profit monthly ( $90 * 54$ ) (see Chapter 3.2. for formula).

Potential risks for any segment seem limited because of low investments needed (see "Resource Demands on Company" below). There is the imaginable risk that the Company gains a large chain such as Seppälä as a customer, but then loses that customer, losing a major source of income at once. Seppälä in particular has recently had financial troubles (Nalbantoglu 2015).

Without further researching the current state of competition in the fashion industry (see Chapter 1.6), it is reasonable to assume that main competitors are the same as in other markets, with Spotify Business being the most used commercial solution in Finnish businesses (Innolink Research Oy 2016a). The second most important competitor is FM radio, used by 72% of companies that use music (Innolink Research Oy 2016a). Tactics to address both are already in use.

Relevant governmental and legal influence is music copyright law, in practice enforced by Teosto and Gramex (Chapter 3).

End-customer demands might be mostly pop songs (Innolink Research Oy 2016a, 7) which are well supplied by the existing song library of Product X.

Technology could be defined to mean the same as in the segmentation model: whether businesses currently have the necessary audio equipment or not. This is not known for any segments. In the future, technology should only help the Company because new technologies make it easier for stores to implement music. For example, loudspeaker technology might integrate computer technology in itself which could help loudspeakers automatically adjust their sound to the individual room better (Graham 2016).

Future of existing relationships does not apply, as no relations exist to the industry.

**Resource Demands on Company:** Foreseeable costs would be minimal and related to the positioning process (Chapter 1.2.1): a new website for Product X (not built around current branding) should probably be developed. Some working hours should be spent planning a suitable sales approach. Occasional travel costs could occur. Overall costs would be very small.

New assets are not needed. Relevant assets of the Company are mainly songs in its database, mobile phones and computers.

Relationships to existing stakeholders could not change in any conceivable way. Such stakeholders are existing customers and Teosto and Gramex.

There would not be any foreseeable expense on financial resources and no new personnel would be recruited so human resources would not be affected.

Like relations to existing stakeholders, company image would be very unlikely to change negatively, especially because existing customers are dealt with using another brand.

**Management:** Management has not stated preferences for potential segments in the fashion industry but there are current sales leads to a possible entry to another new industry. This could temporarily disrupt other operations, though in that case, fashion retail could simply wait.

**Organisational Demands on Company:** It is difficult to envision any extra demands on company culture, management, organisational structure, systems or policies.

#### 4.5.3 Overall comparison

From Kotler's criteria, the most important finding is that any segment would be Actionable. Through Freytag & Clarke's criteria, it is seen that no noteworthy demands could be put on the organisation or its resources.

Segment 6 fails Freytag & Clarke's growth criteria due to its shrinking (unless the survey will reveal information arguing otherwise). Segments 1 and 4 fail Kotler's Accessibility criteria due to possible international logistics required. Segments 1 and 2 are so large and centralised on the chain level that it could be difficult to target them (Chapter 4.4.1).

The segments that do pass all criteria are 3 (Halonen) and 5 (Texmoda Group and Marimekko).

## 5 SURVEY RESEARCH DESIGN

In this Chapter a market survey is created for the non-recommendable Segment 6 defined in Chapter 4. Despite its apparent failure as a market segment worth targeting, it can be used to gain limited insight into the overall larger industry. The rationale of surveying a segment that *will not be recommended* is that individual stores in this segment are thought to be the most likely to respond, and there are very few separate organisations in any other single segment (see Chapter 4.4.4).

Kotler (2009, 191) presents a six step model for the marketing research process that will be followed in this survey. The model is adapted below in Figure 4. Notes in brackets indicate in which Chapter each step occurs in.

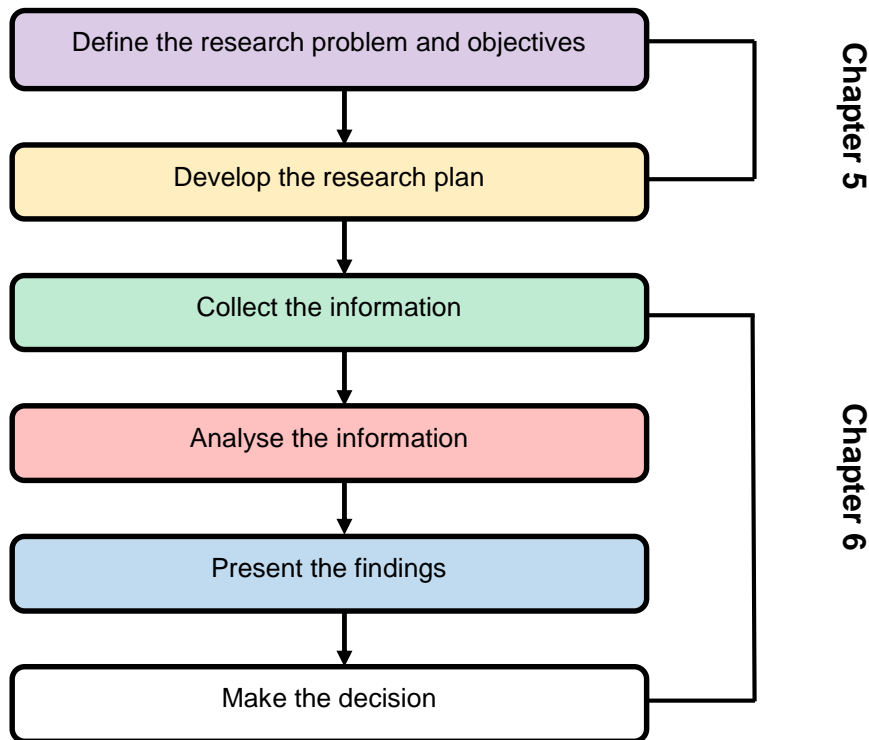


FIGURE 5. Marketing research process. Adapted from Kotler (2009, 191)

The research problem in this case has already been defined as Research Question 3. The objective is to reveal information about factors that were not covered during the segmentation process: Technology, Value, Attitude Toward Product, Purchase Importance, Product Requirements, Product Application, and Quality. Buying Center Make-Up will be taken into account by asking invited participants to only participate if they have an

effect on the buying operations or store environment design of the retail store.

For the research plan, one form of surveys is an *online questionnaire* which is a set of questions for chosen participants (Kotler 2009, 198). The online survey is suitable for this thesis because it is fast, effective and cost-efficient (Webb 2002, 65) and because people may be more honest online than in person (Kotler 2009, 206).

Ethical matters relevant to this thesis are mostly related to this area and must be taken into account while planning the survey. Ethics are a part of standard scientific practices but another reason that they are important in surveys is that failure to follow ethical guidelines could damage the overall reputation of market research studies (Brace 2008, 185). The first guideline is to attach the Company name to the questionnaire (Brace 2008, 186) which implies that poorly followed ethics could damage the reputation of the Company too. Other considerations include disclosing the subject of the questionnaire (music use in business environments), for what specific purposes data will be used (only for this thesis project and not for direct marketing), and how long answering the questionnaire will take (approximately five minutes) (Brace 2008, 186).

Another planning stage consideration would be *piloting* the survey to test the reliability of questions (Brace 2008, 174) which is however not doable on a large scale since there are not that many companies in the sampling frame. The remaining part of the research plan is related to sampling and the formation of questions.

## 5.1 Sampling

*Sampling* is the act of choosing a group of participants that are asked to participate in the questionnaire. The purpose is to choose participants that represent the larger *population* to a degree where deductions and conclusions about it can be made. The *sampling frame* is a narrower part



of the population from which the actual sample is drawn from (Coldwell & Herbst 2009, 82).

This sampling frame is Segment 6 as defined in Chapter 4.4.4. It certainly does not include the complete population of companies fitting into the segmentation criteria because information about all companies was not found (Chapter 4.2). Santasalo & Koskela's (2015) estimations do not reveal the size of Segment 6. This is an example of *coverage error*: when members of the studied population are not included in the sampling frame to begin with (Harrison 2006). This does harm validity (Chapter 1.6.1). Only one store per store chain is chosen and e-mail addresses were not found for several stores. 155 stores of 192 companies are included.

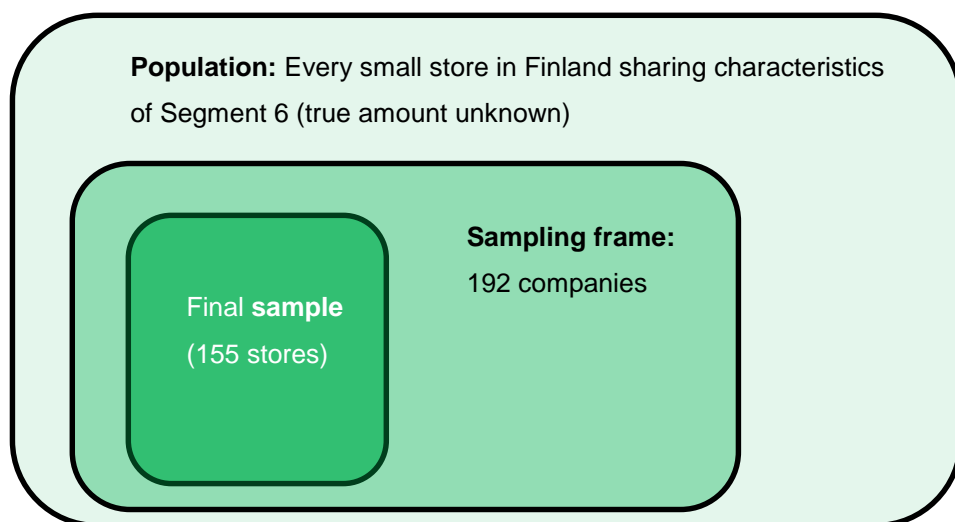


FIGURE 6. Population, sampling frame, sample

*Sampling error* happens if the sample is not representative of the studied population which then reduces external validity. *Selection error* is a subtype of sampling error that happens when a sample is chosen by a *nonprobability method*, for example if only easily accessible participants are approached (*convenience sampling*) which leaves out the part of the population that is harder to reach (Smith & Albaum 2012, 22).

Convenience sampling is, however, the practical choice at this stage of the research process.

## 5.2 Creation of questions

The percentage of participants that do respond (*response rate*) can be expected to be approximately 50% at maximum (Kotler 2009, 206). A lack of responses is a *non-response error* and can be addressed by keeping the whole questionnaire “short and simple” (Kotler 2009, 197). The longer the questionnaire, the more likely a participant is to quit before finishing the answers because of the increased “burden” of completing the questionnaire (Vicente & Reis 2010, 256). In light of this information, only a few questions will be chosen. *Open-ended questions* have no pre-defined answers and generally increase non-response error, while *closed-ended questions* have a pre-defined set of answer choices, are faster to answer and require less thinking from participants (Kotler 2009, 198).

### 5.2.1 Demographic & behavioral questions

Overall question order should logically move from general topics to more specific topics (Brace 2008, 41). First, a question about the demographics of companies can be used to understand how the sampling frame is represented by actual participants. An easy question to answer is what types of products a store sells: clothing for men, women or both. This is Question 1.

To answer the Technology factor, it can also be asked if participants currently use any music or not – this forms Question 2. The answer choice is limited to “Yes” or “No”. The simplest possible closed-ended question contains only two choices: such a scale is a *binary scale*.

### 5.2.2 Questions about product features

The third question asks participants’ beliefs about music’s effects on consumer purchase decisions. This answers the factor Attitude Toward Product. Questions 4 and 5 are about perceptions of the usefulness of two specific features of Product X (“Product Feature A & B”). Both of them describe Product Requirements, Product Application, and Quality. A scale

where worded options move from an order of high to low, or another clear continuous order, is called an *ordinal scale* (Saris & Gallhofer 2014, 104) which suits these questions.

Saris & Gallhofer (2014, 112) recommend generally seven answer choices for overall precision and with the condition that the scale has to have two fixed reference points. These fixed reference points are objectively defined choices that leave no room for the respondents' individual linguistic interpretation: Saris & Gallhofer (2014, 110) give the example of how "completely dissatisfied" and "completely satisfied" as the ends of an answer range are fixed reference points, while "dissatisfied" and "satisfied" are not, because they are more vague. Taanila (2014, 25) argues for less than seven options if answer choices are not all clearly distinct from each other. Royal et al. (2010) review several experiments and argue for four-to-seven choices:

*A large number of response items offer no empirical advantage over a small number, and experiments suggest that four to seven categories be used to optimize validity and to provide consistent and reliable participant responses (Royal et al. 2010; McKelvie 1978; Weng 2004; Lozano et al. 2008)*

A "don't know" choice lets participants skip a question and to express that they do not know what to answer. If this option is not present, participants might genuinely not find a suitable response option and could quit answering the questionnaire at that point, lowering the response rate. The option has possible risks, according to Saris & Gallhofer (2014, 107): most notably, the participants might choose "don't know" only to complete the questionnaire as fast as they can.

### 5.2.3 The price question

The central question is how much companies would pay for music and the features of Product X, or how important pricing is (the Value variable). This will be Question 6. Price is asked as a free-input number on a *nominal scale* where distances between each possible option are explicitly distinct

numbers (Sharma 2012, 13). It should be placed last, as it demands the most specific answer out of all questions being asked.

#### 5.2.4 Qualitative question

Taanila (2014, 24) recommends at least a single open-ended question in addition to closed-ended questions, for recording answers that the researcher has not necessarily thought of. The amount of open-ended questions should be low, as their answers are qualitative data that is analysed through a separate, more time-consuming process than quantitative data (Taanila 2014, 24). A suitable qualitative open-ended question is about any further needs that participants feel like they have with their music systems. This could reveal any information about Purchase Importance, Product Requirements, Product Application, Quality and Purchase Importance and answer Research Question 3. The answer choice is a free-input text box. This question is Question 7.

#### 5.3 Quantitative analysis methods

Data collected on binary, ordinal and nominal scales can be analysed with quantitative methods (KvantiMOTV 2010). Ordinal scales can be coded into numbers and thus effectively treated as nominal scales in quantitative analysis, which is not perfectly mathematically sound, but is a widely justified compromise in survey research when the process is logical and explained (KvantiMOTV 2007). It is known that all data will be *unpaired* or *independent* because answers of one participant cannot influence other participants' answers (Nayak & Hazra 2011).

*Descriptive statistics* is the presentation of sampled data in summary form by the use of descriptors like averages and variances, while *inferential statistics* uses the data to create deductions about the larger population (Chikkodi & Satyaprasad 2009, 1.2). In inferential statistics, *correlation* compares two or more variables to determine if there may be interdependences between them (Chikkodi & Satyaprasad 2009, 1.1), while *regression* is the testing of the "average relationship" between two or

more variables: *independent variables* are manipulated to observe possible changes in *dependent variables* (Chikkodi & Satyaprasad 2009, 14.3). Regression analysis therefore allows the deduction of how variables affect each other (cause and effect) (Chikkodi & Satyaprasad 2009, 14.2).

*Hypothesis testing* is an inferential approach where a sample is tested to determine how likely it is that a *claim* about the relationships of independent and dependent variables could be accepted to be generalisable to the larger population (Wegner 2010, 256). A *null hypothesis* (“H<sub>0</sub>”) is a statement against the original claim and hypothesis testing always tests if the null hypothesis could be rejected based on empirical evidence, in which case an *alternative hypothesis* (“H<sub>1</sub>”) is accepted (KvantiMOTV 2003). *One-tailed hypotheses* are alternative hypotheses that make assumptions about the direction of relationships between tested variables, while *two-tailed hypotheses* only assume the existence of meaningful differences between the variables (KvantiMOTV 2003).

A *significance level (P-value)* describes *statistical significance*: the probability that a statement would be valid when applied to the larger population (KvantiMOTV 2003). P-values are expressed between zero and one and are used in hypothesis testing. Generally, when  $p < 0.05$ , the null hypothesis is rejected with “medium significance” (because the result would be the same in 95 out of 100 samples in the population) while a significance of  $p < 0.01$  is “significant” and  $p < 0.001$  is “very significant” (KvantiMOTV 2003). Incorrect interpretations of significance are defined as *Type I error* (rejection of a true null hypothesis) and *Type II error* (acceptance of a false null hypothesis) (Wegner 2010, 263).

### 5.3.1 Spearman’s rank correlation coefficient

The Spearman rank correlation coefficient returns a correlation degree  $r_s$  for two ordinal variables, using the relative rankings of values in complete pairs created from sets of data in the sample (Chikkodi & Satyaprasad 2009, 13.1-13.2). The  $r$  value is between 1 and (-1), which explains the

direction (positive or negative) and strength of the correlation (Chikkodi & Satyaprasad 2009, 13.1-13.2). This is used to find a significance based on a table of critical values (Gravetter & Wallnau 2015, 515). The null hypothesis is that there is no correlation in the population between the variables, while the alternative is that a population correlation exists (Gravetter & Wallnau 2015, 515).

The correlations investigated are *monotonic* meaning that the measurement is about the consistency of the relationship between the two variables, without specifying the form of the relationship (Gravetter & Wallnau 2015, 512). The test is not necessarily as precise as alternatives, because actual values are not taken into account, only their rankings in pairs are (Chikkodi & Satyaprasad 2009, 13.13), but this means that it is suitable for ordinal scales.

### 5.3.2 Mann-Whitney U-test

The Mann-Whitney U-test is a regression test used to test if a variable in two independent sample groups differs in the larger population (Sharma 2012, 405). The null hypothesis is that the two groups have the same distribution and the alternative hypothesis is that the distributions are different (Nachar 2008, 14). The test ranks all values in both groups from low to high, lists these pairs, and calculates a *U-value* by counting every pair where values in one group are larger than in the other (Mann & Whitney 1947). The U-value, together with the sizes of the groups, is then used to find a P-value, based on a pre-defined null hypothesis distribution given in the original work by Mann & Whitney (1947). The test is particularly suitable for ordinal scales (Gravetter & Wallnau 2016, 688) and for small sample sizes and when extreme outlier values are present (Nachar 2008, 19). A weakness is that if the groups have the same mean but different variances, the test can result in Type I errors (Nachar 2008, 20).

#### 5.4 Qualitative analysis methods

When analyzing qualitative answers (Question 7, Chapter 5.2.4), inductive and deductive approaches (Chapter 1.5) are both valid and the research question determines the choice (Mayring 2000). In this study, the relevant question is Research Question 3 and Question 7 will be phrased as: “Are there any other interesting features or needs that you wish commercial music solutions included?”. This seems very open and will lend itself to an inductive analysis, which in qualitative surveys means deciding how to classify and analyze the data after its collection and after examining it (Jansen 2010).

After reading through the collected answers, in an inductive process the researcher would perform *coding* on the data by marking down anything relevant for the study in the data (Saaranen-Kauppinen & Puusniekka 2006a). No further analysis takes place at this stage, the content of the answers is only mapped out. There are no hard rules to the coding method but consistently using the same colors for marking down repeating topics or other concepts makes the coding logical to read (Saaranen-Kauppinen & Puusniekka 2006a).

The analysis part includes detailed examination of small parts (like the codes created in the earlier stage) and the synthesis of these into larger generalisations where applicable (Saaranen-Kauppinen & Puusniekka 2006b). In this study it is relevant to examine if answers to the qualitative question correlate with answers to the quantitative questions, which could be done by retroactively *quantitizing* the qualitative answers. According to Driscoll et al. (2007, 22), in a questionnaire, a simple way to implement the concept is to count if specific codes appear in answer sets or not (using binary scales), which is “most appropriate for research that does not require either extensive, deep analysis of qualitative data or multivariate analysis of quantitative data” (Driscoll et al. 2007, 26).

## 5.5 Definitions of Hypotheses

TABLE 12. Overview of hypotheses.

Hypothesis	Alternative hypothesis	Test
<b>H<sub>1</sub></b>	There is a positive correlation between answers to Q3 and answers to Q6	Spearman
<b>H<sub>2</sub></b>	There is a positive correlation between answers to Q3 and answers to Q4	Spearman
<b>H<sub>3</sub></b>	There is a positive correlation between answers to Q3 and answers to Q5	Spearman
<b>H<sub>4</sub></b>	There is a positive correlation between answers to Q4 and answers to Q5	Spearman
<b>H<sub>5</sub></b>	The distributions between “Yes” and “No” answers to Q2 and answers to Q3 are different ( <i>independent variable: Q2, dependent variable: Q3</i> )	Mann-Whitney U
<b>H<sub>6</sub></b>	The distributions between “Yes” and “No” answers to Q2 and answers to Q6 are different ( <i>independent variable: Q2, dependent variable: Q6</i> )	Mann-Whitney U

As a claim for hypothesis generation, it can be thought that participants' attitudes toward the effect of music might correlate with every other opinion. Another correlation that is interesting to test is between Product Features A and B: are both found useful by the same participants? Spearman's correlation co-efficient will work with all of these correlation hypotheses. Finally, regressions to stated price and the opinion on effect of music can be tested depending on whether participants currently use music or not, using the Mann-Whitney U-test.



## 6 SURVEY RESULTS

The purpose of this chapter is to analyse collected survey results through descriptive and inferential statistics. All statistics were generated using the IBM SPSS Statistics software based on the original responses. See Chapter 5 for necessary background information on the survey contents and analysis methods.

### 6.1 Overview of responses

The total number of responses was 46, making response rate relatively high at 29.68% (46 out of 155). 8 out of these 46 respondents (17.39%) also answered the optional qualitative question. 15 responses are considered only partially complete because the Don't Know option was chosen to one or more questions. This leaves 31 complete sets of data, as the Don't Know option is treated as a missing value in all testing.

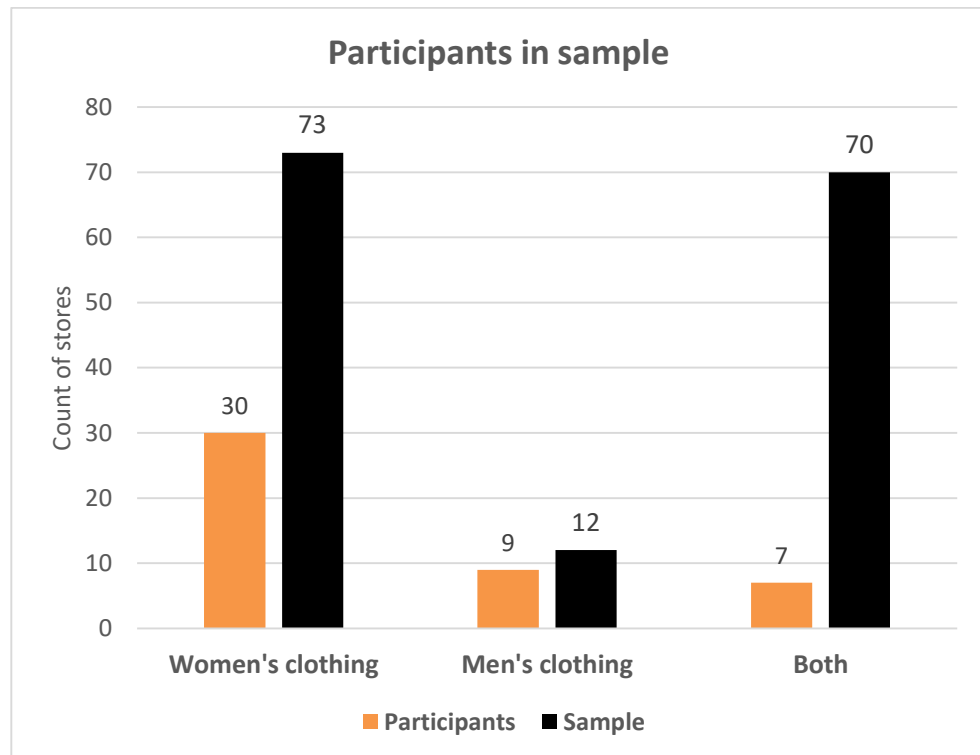


FIGURE 7. Industry of participants compared to the complete sample. Stores that sell products for both demographics are clearly not represented proportionally. A potential explanation for this is that the

judgments made about their product types may have been incorrect in the data collection process, and store representatives felt differently about the question. So the actual size of the “Both” category might in reality be smaller and the “Women” and “Men” categories may be larger. Nevertheless, all three categories are represented at least to some extent, and most importantly no category is larger than its assumed size.

## 6.2 Descriptions of results

Appendix 3 contains descriptive statistics for Questions 3, 4, 5, and 6, generated using the IBM SPSS Statistics software. These descriptive statistics are also grouped in “Yes” and “No” groups, according to answers to Question 2 (the current use of music). Questions 3, 4 and 5 were coded to numerical values so that “1” indicates complete disagreement and “4” means complete agreement.

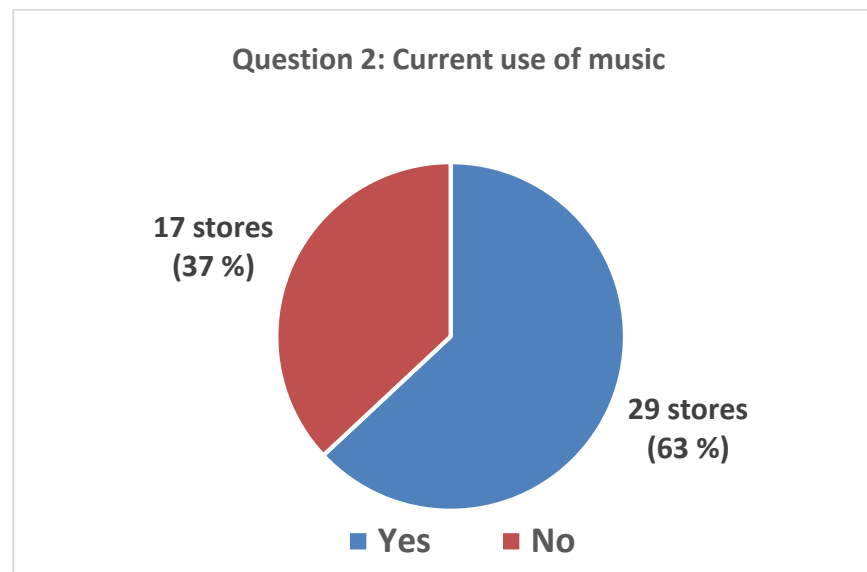


FIGURE 8. Pie chart of answers to Question 2.

A majority of 6 stores (13%) do use some type of background music solution at the moment, revealing that the Technology is mostly satisfied in the sample.

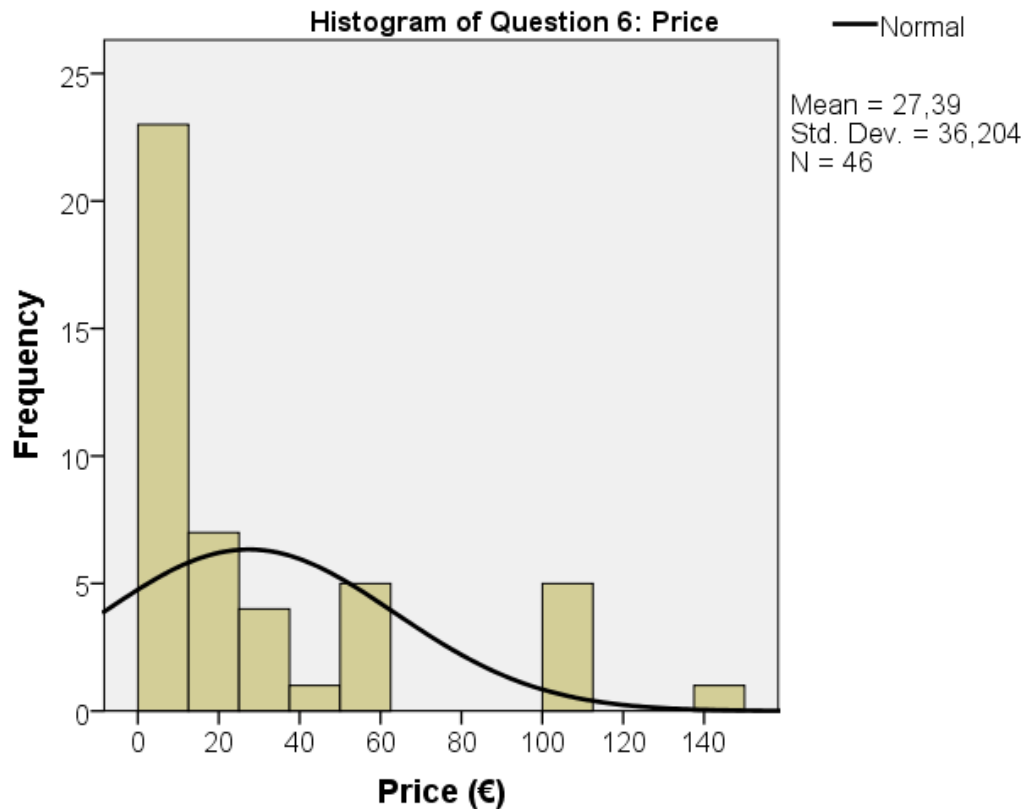


FIGURE 9. Histogram of answers to Question 6.

Two major observations can be made about Question 6 immediately without further testing. The mean of the answers is 27.39€ which is 51.61€ below an assumed purchase price of Product X (Chapter 3) and approximately a third of participants (15 out of 46) replied with 0€, meaning that they would only be interested in Product X if it was free. 0€ was also the mode of all answers. There were several other answers below 10€, as seen in Figure 9. Secondly, only 6 respondents (13.04%) would pay more than 79€ monthly for the features described. There is a single extreme outlier of 149€. It is 49€ higher than the second highest answer (100€, given by five participants).

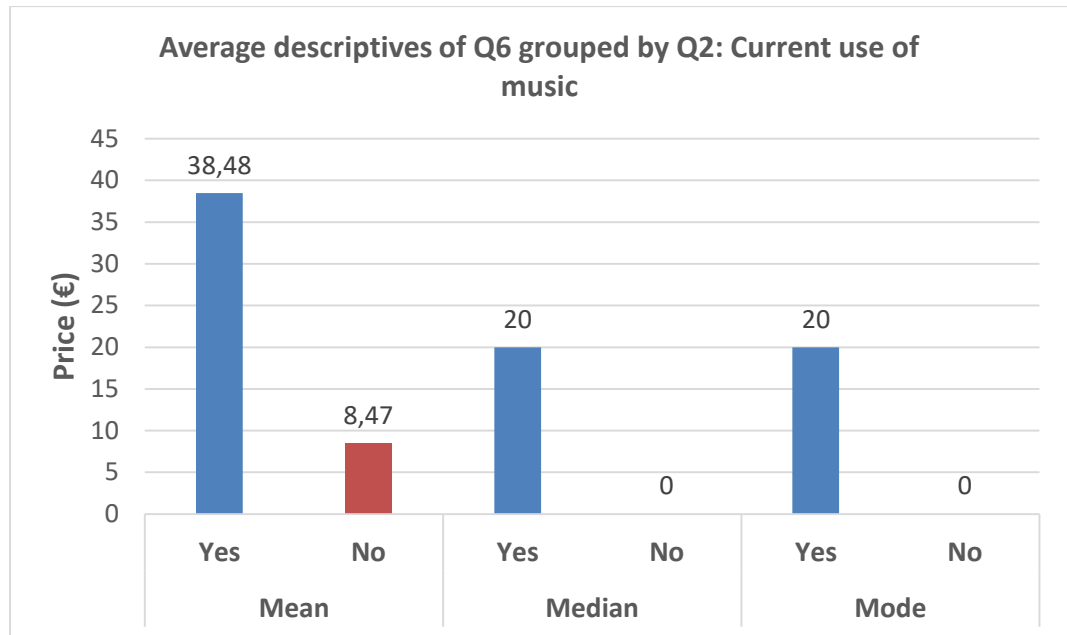


FIGURE 10. Mean, median and mode of Q6 by answers to Q2.

The above descriptives (Figure 10) demonstrate an obvious difference in companies that do use music currently and those that do not. Both median and mode are 0€ when music is not currently used, and there is about a 30€ increase in mean when music is used.

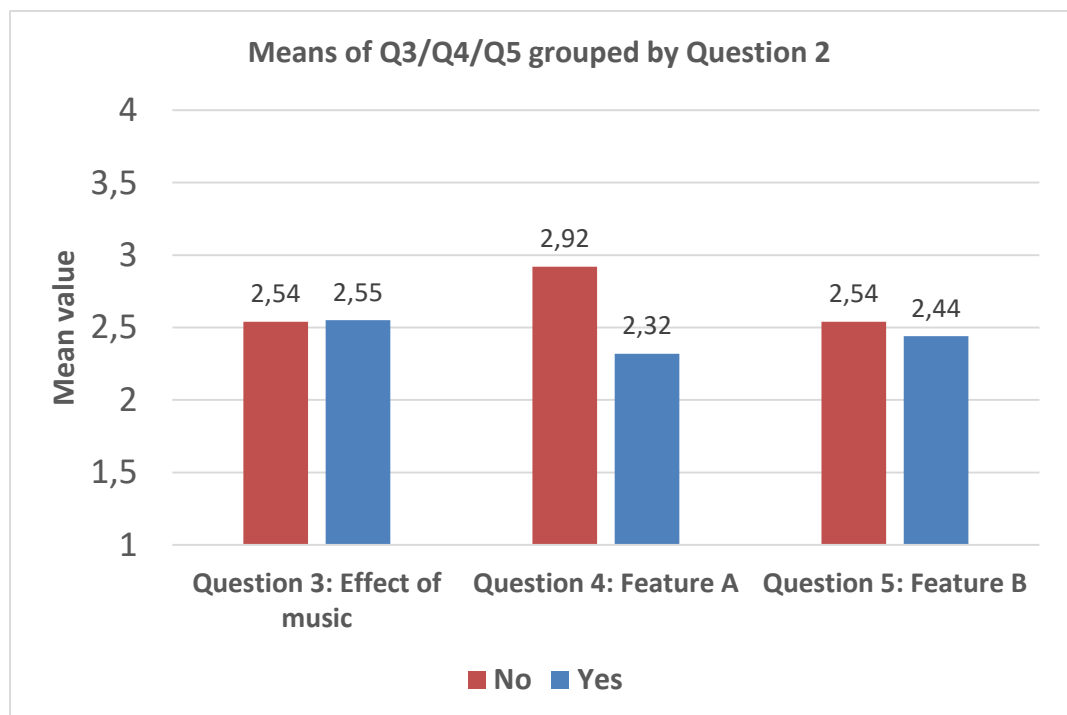


FIGURE 11. Means of Q3/Q4/Q5 grouped by Question 2.

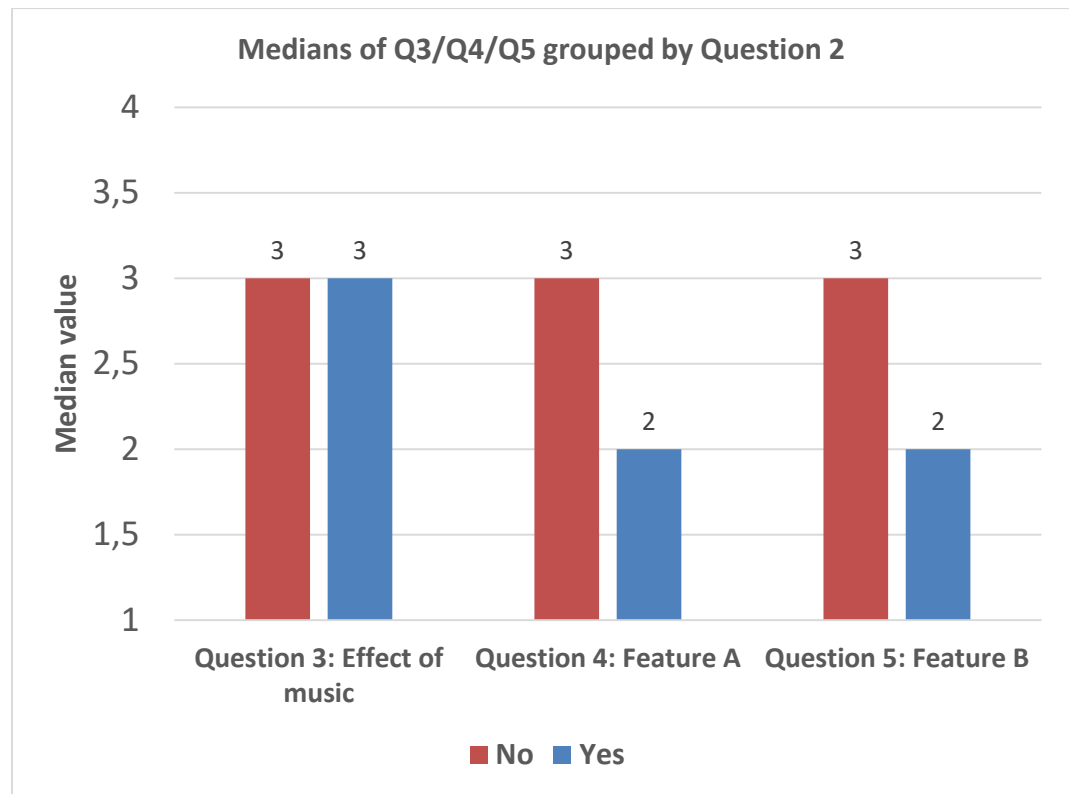


FIGURE 12. Medians of Q3/Q4/Q5 grouped by Question 2.

Overall, specific product features were found closer to being somewhat useful than not (medians 3 and 2.5 to Questions 4 and 5 respectively). “Very useful” was given by 8 participants for each question, approximately a fifth for both features ( $8/35 = 22.86\%$  for Feature A,  $8/40 = 20\%$  for Feature B).

Surprisingly, and counter to the claims of  $H_2$  and  $H_3$ , when music *is* used, means and medians of the feature-related Questions 4 and 5 decrease closer to the “negative” side of the ordinal scale (where 2 = “not very useful”).

6.2.1 Effect of music and Innolink Research Oy (2016a)

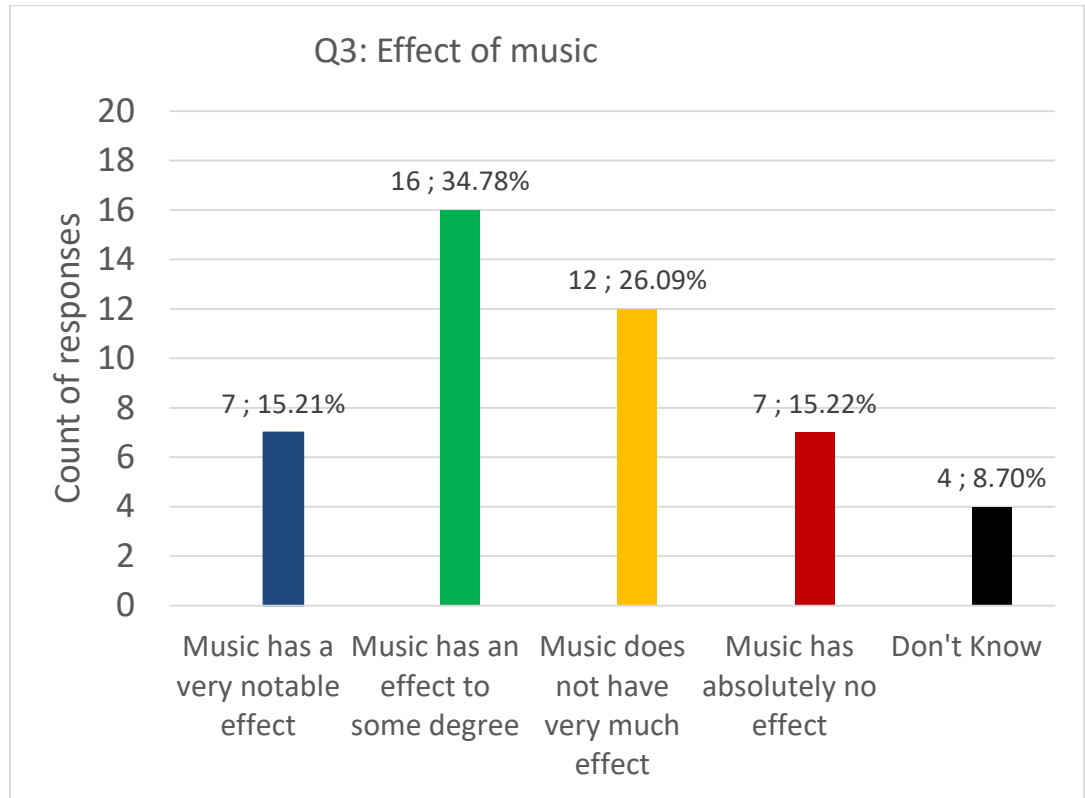


FIGURE 13. Histogram of Question 3: Effect of music.

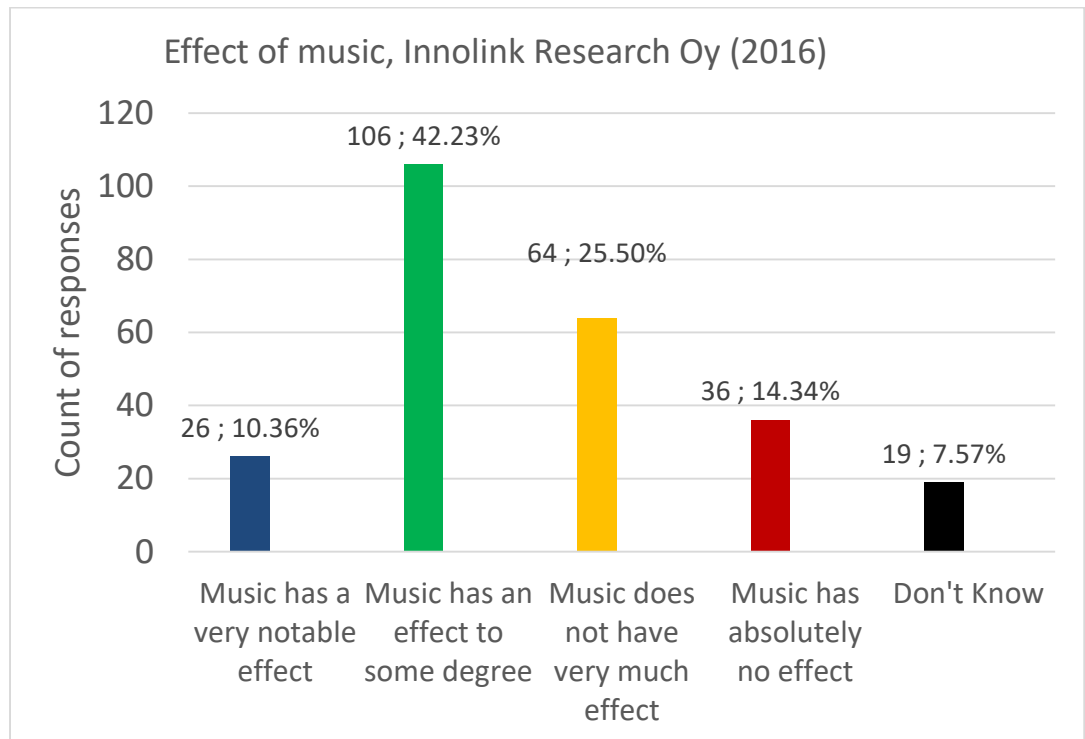


FIGURE 14. Histogram of Effect of Music question from Innolink Research Oy (2016a) (Appendix 4).

Exactly 50% of responses to Question 3 were on the positive “side” of the answer scale (answer choices 3 or 4), while 15.21% of responses were that music had a very notable effect.

The Innolink Research Oy (2016a, 5) survey contained a question that is similar to Question 3. The question data and SPSS generated descriptive statistics for it are in Appendix 4. That question was asked on an ordinal scale with four closed-ended answer options (with identical options as in this study), from 251 participants. The distributions of answers are visually remarkably similar, also when accounting for “Don’t Know” answers (Figure 13 and Figure 14). Mean statistics for Question 3 (2.55 overall, 2.55 in “Yes” group, 2.54 in “No” group) are very close to the 2.53 mean value obtained by the Innolink survey, and both have a median of 3. In a comparison of means, the different sample sizes should be noted. 95% confidence intervals are still within ranges that can be considered positive answers (over 2) in both studies (2.25 to 2.85 in this study, 2.41 to 2.64 in the Innolink study).

However, similarities cannot be tested and it should be assumed that they are a random statistical occurrence. The underlying population or the sample of the Innolink study are not known (other than that participants were retail stores) and the study designs are different: the Innolink question asked about music’s effect on “business operations” while this study asked about “customer purchase decisions”. The rest of the published Innolink questions are also very different.

It should be noted that the Innolink study was only found after the questionnaire of this study had already been sent to participants – otherwise Question 3 could have been worded in the exact same wording to increase the validity of comparisons.

### 6.3 Testing of hypotheses

The hypotheses were defined in Chapter 5.5 (Table 12). Hypotheses were tested using the IBM SPSS Statistics software, and complete test results are in Appendix 5.

#### 6.3.1 Spearman's rank correlation coefficient

**H<sub>1</sub>:** Null hypothesis is not rejected ( $p=.31$ ). A strong positive correlation ( $r_s=.784$ ) between perceived effect of music and stated price was observed in the sample but it is not likely to be significant in the population.

**H<sub>2</sub>:** Null hypothesis is not rejected ( $p=.299$ ) and the strength of the correlation between perceived effect of music and Feature A would have been very weak ( $r_s= -.095$ ) and negative.

**H<sub>3</sub>:** Null hypothesis is not rejected ( $p=.165$ ) and the strength of the correlation between perceived effect of music and Feature B would have been very weak ( $r_s=-0.168$ ) and negative.

**H<sub>4</sub>:** Null hypothesis can be rejected ( $p=.000086$ ) and the alternative hypothesis can be accepted with very high significance. Correlation is positive ( $r_s=0.609$ ), meaning that stated usefulness of Feature A also correlates with stated usefulness of Feature B in the population.

#### 6.3.2 Mann-Whitney U-Tests

$N_1$  refers to the size of the "Yes" group and  $N_2$  to the size of the "No" group.

**H<sub>5</sub>:** Null hypothesis is not rejected ( $p=.989$ ,  $U=188$ ,  $N_1=29$ ,  $N_2=13$ ) so current use of music does not infer differences in the perceived effect of music in the sample or population distribution.



**H<sub>6</sub>:** Null hypothesis can be rejected at statistical significance ( $p=.001048$ ,  $U=105$ ,  $N_1=29$ ,  $N_2=17$ ) so current use of music does infer differences in the stated price in the sample and population distributions.

While variances differ largely between groups (271.64 in the “No” group, 1606.54 in the “Yes” group) the means are also different (8.47 in “No” group, 38.48 in “Yes” group), therefore there is no reason to suspect a Type I error (see Chapter 5.3.2).

#### 6.4 Qualitative answers (Question 7)

There were only 8 responses to Question 7. In the coding process (described in Chapter 5.4), six distinct codes were found. Most responses do not directly answer the actual question (needs or wants for music solutions) and instead comment on other topics. The overall lack of responses limits their usefulness and makes it unviable to perform significance testing between Question 7 and other questions (see Chapter 5.4). For these reasons, answers to Question 7 do not seem to be very useful for their intended purpose (answering Research Question 3).

One participant gives a direct answer to the question, stating a lack of control and a desire for a wide range of songs, mentioning that store staff “lose their nerves” hearing the same songs too often. The participant does use music currently (Question 2), so they must be referring to their current music solution. The participant also does not think that music can affect consumer purchases, as they answered Question 1 with the lowest possible level of agreement, and they do not mention customers in their answer, so their answer to Question 7 is entirely about the needs of the store employees. This perspective has not yet been raised in the whole thesis.

Another participant wishes for a regulatory change that could only be granted by the Teosto & Gramex organizations and is not something that music provider companies can influence. They explain that copyright fees are too much for a small store to pay and that there are not enough

customers to gain benefits from music. A third participant shares the same explanation for why they do not use music, but does not address Question 7.

A fourth participant mentions that they are a very small “micro” sized store. They do play music but are clearly unsure and curious about its benefits, as they raise questions about the topic, and have two “Don’t Know” answers in their other responses. They ask for academic research on the benefits of music, which does exist to some extent (mentioned in Chapter 1.1).

A fifth participant also raises a question of their own, uses a music solution currently and thinks consistently positively of the usefulness of music and the features of Product X. They are pondering about a system where customers could choose what music is played. The technical implementation of such feature in retail environments seems very difficult.

A sixth participant explains that they do not use music with a clear reasoning. The shopping mall that they are located in already plays music that is heard inside the store. They state a lack of control over what music is heard, but in a neutral tone, which indicates that the matter is not very significant to them. They also state that they believe that music has an effect on consumer purchasing behaviour but their answer to Question 3 counters this (“music does not have very much effect”). However, their word choice of purchase *behaviour* may indicate that they are talking of different aspects of purchase behaviour than purchase *choices*, which was what Question 3 was about.

A seventh participant is the notable outlier that stated that they would pay 149€ for Product X. They are currently using a competitor’s service and reflect on the usefulness of Feature A. Their answers to Questions 3-5 are also very high. They have clearly thought about the topic before, understand what contributes to the cost structure of a background music solution, and their needs and wants match those provided by Product X.

This store seems like an ideal customer but is clearly a rare exception among this market segment.

An eighth participant uses Question 7 for a negatively-toned statement against music. The rest of their answers match this expression. This is the factor Attitude Toward Product from the segmentation model: the participant claims that they will “never” use any music. This perhaps demonstrates that the individual person who participated in the question can have a large effect on the type of answers given.

Overall, answers to Question 7 support a conclusion that very rare perfectly suitable customers do exist for Product X in the segment, and that attitudes and opinions may also be in the other extreme, but no larger generalizations can be made.

## 6.5 Discussion of results

Average attitudes to the effect of music (Attitude Toward Product) seem indifferent or cautiously positive. More importantly, no significant correlations were found. Answers were similar to results from another study, which raises a further question if all retail industries have similar attitudes, but this must be treated as a random coincidence (Chapter 6.2.1).

The Value factor is highly prioritized in the segment and a few participants specifically pointed this out in Question 7. Overall only 13.04% of participants would pay enough for Product X, which may look discouraging, but is slightly higher than an overall 9.7% usage rate of commercial background music services in 1000 Finnish companies (Innolink Research Oy 2016a, 1). The required Technology is well present in the segment, with most participants playing music. H<sub>6</sub> reinforces the importance of the Technology factor: market targeting should focus on companies that already do use music, though it is not certain why companies that already use a music solution seem to be willing to pay more for it.

Due to the lack of answers to Question 7, not much can be said about specific Qualities or Product Requirements or Purchase Priority. There was a minor overall interest in the specific features of the product (Questions 4 and 5), which describes Product Application. Opinions on the effect of music did not correlate with opinions on the specific features. The only significant observation is that if one specific product feature is found useful, it seems likely that the other is as well (H<sub>4</sub>).

While there exist buyers who would pay more than enough for Product X, Segment 6 was already dismissed due to its shrinking (Chapter 4.5).

## 7 TARGETING RECOMMENDATIONS

See Chapter 2.6 for an explanation of the SWOT analysis below. Relevant information about individual topics is marked inside parentheses.

TABLE 13. SWOT analysis summarizing research.

<b>Approaching the fashion retail market</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Negligible costs and risks involved (Chapter 4.5)</li> <li>• Only a few companies can be recommended, so sales attempts are quickly done (Chapter 4.5)</li> <li>• Can collect more primary data on competitors, and companies' purchasing centers in the market by sales attempts (Chapter 2.2)</li> <li>• Reduce overall company risk by market development (Chapter 1.2)</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of existing relationships to the market (Chapter 5.5)</li> <li>• General unfamiliarity with the market</li> <li>• Segmentation process limited to fashion retail only (Chapter 1.6)</li> <li>• Analysis of segment purchasing centers limited to speculation (Chapter 4.3)</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Store chains continue to grow (particularly men's fashion) (Chapter 3.3.1)</li> <li>• At least small stores already have the required technology (Chapter 6.2)</li> </ul>	<ul style="list-style-type: none"> <li>• Possible continuing market shrinkage due to growth of online retail (Chapter 3.3.1)</li> <li>• Unknown competitive reactions of unanalysed competition</li> </ul>

Segment 3 (Halonen) and Segment 5 (Texmoda Group and Marimekko) are recommended because they are practically free for the Company to attempt (Chapter 4.5). This will, at worst, lead to more primary data gained through sales attempts and a richer understanding of the market.

## 8 CONCLUSIONS

In this chapter, the three research questions are answered and the overall process is evaluated and its validity and reliability are discussed.

Research Question 1 was: “*How do the profit potentials of the eight major industries of specialised retail trade compare with each other?*” This was answered in Chapter 3. First, it was demonstrated that the amount of locations to which music is delivered is an important determinant of profit that the Company can gain, and is a better basis for estimation than the number of buyer companies is. It was also decided that it might be more accurate to calculate a total potential gross profit per location per month, instead of a simple total sales potential.

In specialised retail, the three most profitable industries would be home decoration and leisure (both 17442€) and fashion (14022€). This was surface-level analysis: only a few factors were taken into account, notably excluding competition (Chapter 1.6). The rates of real buyers in the retail industry are also hard to estimate without more concrete secondary or primary data. Still, how each major industry ranks in relation to each other is answered satisfactorily, and the segmentation process was narrowed down to one fashion retail to begin answering Research Question 2.

Research Question 2 (the main question) was: *Are there any recommendable market segments for Product X in the chosen major industry of specialised retail stores?* The question was answered by applying the Bonoma & Shapiro (1984) segmentation model, with modifications by Blythe & Zimmerman (2005) on all identified companies in the three largest and most homogeneous industries of fashion. Six segments were formed using suitable segmentation bases, and evaluated with Kotler’s (2009) and Freytag & Clarke’s (2001) criteria. A market survey was sent to Segment 6 representing small Finnish companies with small buying centres, and the results do not indicate that the segment in particular is attractive. It was finally declared that Segments 3 and 5, which

are medium sized Finnish chains, can be recommended for sales attempts, because it is practically free to try and would not take long.

Research Question 3 was: *What are Finnish companies in a studied segment looking for in background music services?* The chosen segment was Segment 6 and the choice was made out of necessity. The question was answered through survey results analysed in Chapter 6. The main finding was that a competitive price is important for the segment. This is supported by a significant association with current usage of music: those companies that already use music seem to be more likely to pay more for it. The underlying reason for that is not known, which is acceptable, considering that the study is descriptive in nature.

TABLE 14. Summary of Research Questions and their answers.

Research Question	Answer
<b>1:</b> <i>How do the profit potentials of the eight major industries of specialised retail trade compare with each other?</i>	The three most promising industries are fashion, home decoration and leisure.
<b>2 (Main Question):</b> <i>Are there any recommendable market segments for Product X in the chosen major industry of specialised retail stores?</i>	The chosen major industry was fashion retail. Recommendable segments are Segment 3 (Halonen) and Segment 5 (Marimekko & Texmoda).
<b>3:</b> <i>What are Finnish companies in a studied segment looking for in background music services?</i>	The studied segment was small Finnish stores and chains. Needs and wants can vary, but low pricing is commonly priority.

The segmentation work was not a completely successful adaptation of the Bonoma & Shapiro model and can instead be considered a one-stage process that only truly managed to collect information on the macro level (Chapter 2.2). This is because purchasing centres were analysed only by educated guesses and no actual data about their buying center make-up or centralisation/decentralisation degrees was collected. This is “superficiality”, one of Bonoma & Shapiro’s problems with segmentation (Chapter 2.4).

On the other hand, the study was an ambitious project that provided concrete and inarguably valuable results for the Company, in the form of six defined segments, of which two can be recommended, and an overview of factors related to a move to the fashion retail industry. In this regard the thesis was very successful in fulfilling its objectives.

### 8.1 Validity and reliability

Reliability of the secondary data collection process (Chapter 4.2) is supported by the fact that a clear process model was followed consistently. Reliability could be better judged by repeating the whole process again, particularly if other people than the author did it, which however would take tens of hours of work.

The internal validity of the data collection process and the survey results is clearly hurt by a coverage error, caused by companies themselves and the Tax Administration (Chapter 4.2). Part of the problem also lies in the planning of the data collection process, where there was a failure to initially acknowledge that clothing retail stores *can* be owned by companies that are technically classified to other industries.

Finally, the external validity of the survey is debatable because while non-response error was sufficiently avoided, the method used was convenience sampling (Chapter 5.1).



## 9 SUMMARY

This thesis was a deductive mixed methods study that focused on breaking down the Finnish specialised retail store industry into market segments for the Company and its current flagship product Product X. While the company operates in other markets, it is thought that an expansion to retail trade could have potential. Specialised retail is comprised of more stores and a wider variety of companies than other retail industries, making it suitable for the thesis work. The limits of the research process were established so that positioning or analysis of competition were not performed.

The larger part of the theoretical framework focused on segmentation, targeting, simple calculations of sales potential and SWOT analyses. The first research question ranked the eight major industries of Finnish specialised retail trade, as described by Santasalo & Koskela (2015), against each other, in order to discover which major industry the segmentation and targeting processes should be performed on. Fashion retail was found to be the most suitable major industry because its three biggest industries are relatively similar to each other and long-term gross profit estimations are attractive enough. Secondary data about 3600 Finnish companies operating in these industries was collected to establish how many active companies and stores there are. Six segments were formed from 524 active companies with 1338 stores. Small fashion stores are not attractive because they are disappearing, while the largest store chains seem unapproachable by the Company. However, two segments consisting of three medium sized chains fulfilled all selection criteria and are recommendable, which answers the main research question.

A segment consisting of small fashion stores was investigated using a market survey, as it was the only fitting segment for a market survey. Different participants prioritise different things but commonly small stores would not pay enough for Product X. This answered the final, third research question. Analysed survey results do not give enough reason to

approach the segment because it is also shrinking, which was discovered in the segmentation process.

Finally, every major finding of the research process was summarised as a SWOT analysis describing the situation and the thesis was concluded and briefly evaluated.

There are several suggestions for future research. Specifically related to the Company, more segmentation could always be done, in particular on the markets that the Company is currently operating in, and later as a re-segmentation of retail. On a more general level, the accidentally discovered similarity between answers to a question about the perceived effectiveness of music and a very similar question in a study by Innolink Research Oy (2016a) inductively raises a research topic: perhaps there exist significantly different opinions about the effect of music across different retail industries, or perhaps not. Such research would have implications for all background music providers.

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## APPENDIX 1: TOS 2008 CLASS 47

Class 47 of TOS 2008 industry classification system, excluding subclasses 478 and 479.

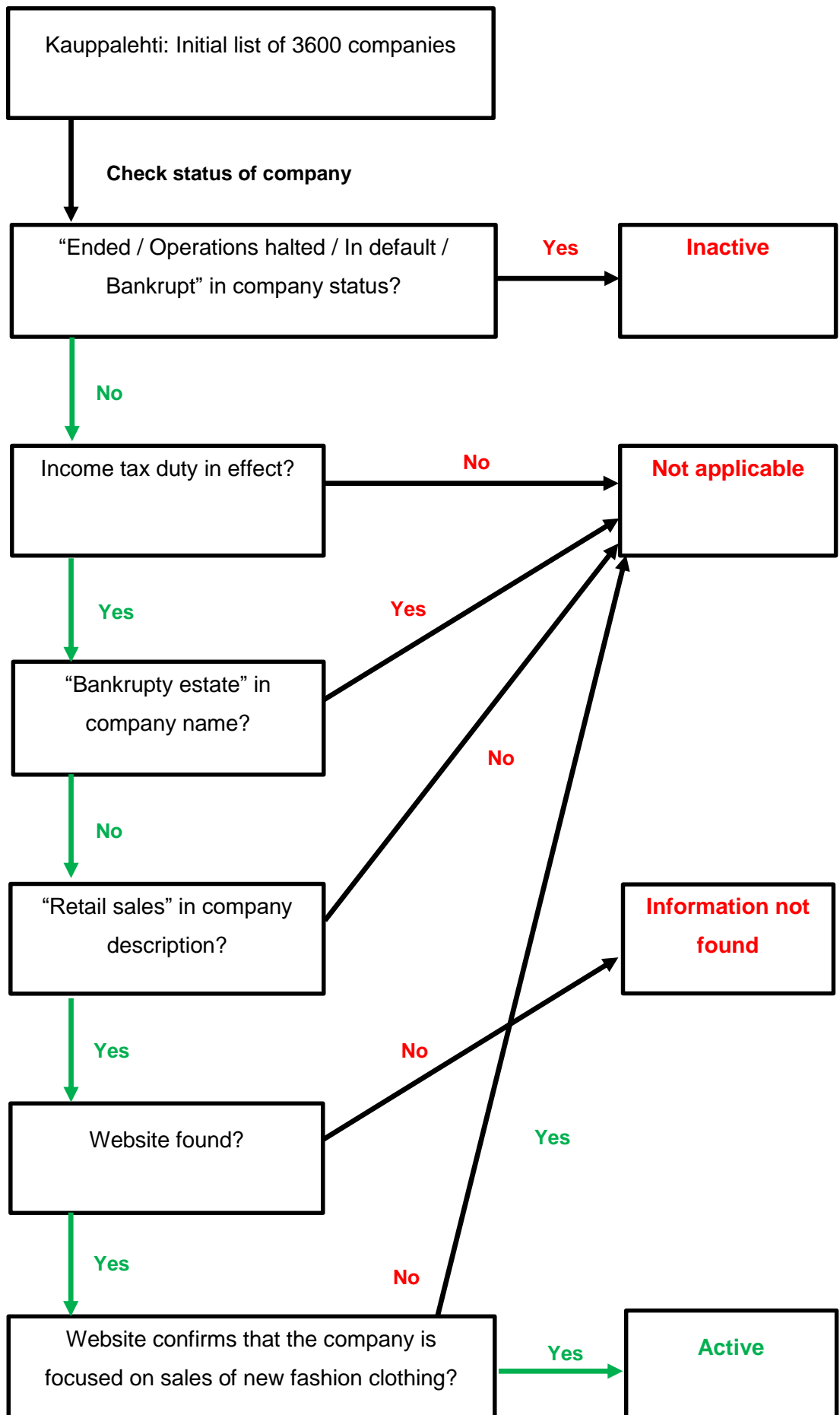
Original available at: [http://www.stat.fi/meta/luokitukset/toimiala/001-2008/koko\\_luokitus.html](http://www.stat.fi/meta/luokitukset/toimiala/001-2008/koko_luokitus.html)

Code	Subclass name
<b>4711</b>	<b>Elintarvikkeiden, juomien ja tupakan erikoistumaton vähittäiskauppa</b>
47111	Isot supermarketit (yli 1000 m <sup>2</sup> )
47112	Pienet supermarketit (yli 400 m <sup>2</sup> , enintään 1000 m <sup>2</sup> )
47113	Valintamyymälät (yli 100 m <sup>2</sup> , enintään 400 m <sup>2</sup> )
47114	Elintarvike-, makeis- ym. kioskit (enintään 100 m <sup>2</sup> )
<b>4719</b>	<b>Muu vähittäiskauppa erikoistumattomissa myymälöissä</b>
47191	Itsepalvelutavaratalot (yli 2500 m <sup>2</sup> )
47192	Tavaratalot (yli 2500 m <sup>2</sup> )
47199	Pienoistavaratalot ja muut erikoistumattomat myymälät (enintään 2500 m <sup>2</sup> )
<b>472</b>	<b>Elintarvikkeiden, juomien ja tupakan vähittäiskauppa erikoismyymälöissä</b>
<b>4721</b>	<b>Hedelmien, marjojen ja vihannesten vähittäiskauppa</b>
47210	Hedelmien, marjojen ja vihannesten vähittäiskauppa
<b>4722</b>	<b>Lihan ja lihatuotteiden vähittäiskauppa</b>
47220	Lihan ja lihatuotteiden vähittäiskauppa
<b>4723</b>	<b>Kalan, äyriäisten ja nilviäisten vähittäiskauppa</b>
47230	Kalan, äyriäisten ja nilviäisten vähittäiskauppa
<b>4724</b>	<b>Leipomotuotteiden ja makeisten vähittäiskauppa</b>
47241	Leipomotuotteiden vähittäiskauppa
47242	Makeisten vähittäiskauppa
<b>4725</b>	<b>Alkoholi- ja muiden juomien vähittäiskauppa</b>
47250	Alkoholi- ja muiden juomien vähittäiskauppa
<b>4726</b>	<b>Tupakkatuotteiden vähittäiskauppa</b>
47260	Tupakkatuotteiden vähittäiskauppa
<b>4729</b>	<b>Muu vähittäiskauppa erikoismyymälöissä</b>
47291	Jäätelökioskit
47292	Luontaistuotteiden vähittäiskauppa
47299	Muu päivittäistavaroiden erikoisvähittäiskauppa
<b>473</b>	<b>Ajoneuvojen polttoaineen vähittäiskauppa</b>
<b>4730</b>	<b>Ajoneuvojen polttoaineen vähittäiskauppa</b>
47301	Huoltamotoiminta
47302	Polttoaineiden vähittäiskauppa automaateista
<b>474</b>	<b>Tieto- ja viestintäteknisten laitteiden vähittäiskauppa erikoismyymälöissä</b>
<b>4741</b>	<b>Tietokoneiden, niiden oheislaitteiden ja ohjelmistojen vähittäiskauppa</b>
47410	Tietokoneiden, niiden oheislaitteiden ja ohjelmistojen vähittäiskauppa
<b>4742</b>	<b>Televiestintälaitteiden vähittäiskauppa</b>
47420	Televiestintälaitteiden vähittäiskauppa
<b>4743</b>	<b>Viihde-elektronikan vähittäiskauppa</b>
47430	Viihde-elektronikan vähittäiskauppa
<b>475</b>	<b>Muiden kotitaloustavaroiden vähittäiskauppa erikoismyymälöissä</b>
<b>4751</b>	<b>Tekstiilien vähittäiskauppa</b>
47511	Kankaiden vähittäiskauppa
47512	Lankojen ja käsityötarvikkeiden vähittäiskauppa
<b>4752</b>	<b>Rautakauppatavaran, maalien ja lasin vähittäiskauppa</b>
47521	Rauta- ja rakennustarvikkeiden yleisvähittäiskauppa
47522	Maalien vähittäiskauppa
47523	Keittiö- ja saniteettitilojen kalusteiden vähittäiskauppa
47529	Muu rauta- ja rakennusalan vähittäiskauppa
<b>4753</b>	<b>Mattojen, tapettien ja lattianpäällysteiden vähittäiskauppa</b>
47531	Mattojen ja verhojen vähittäiskauppa
47532	Tapettien ja lattianpäällysteiden vähittäiskauppa
<b>4754</b>	<b>Sähköisten kodinkoneiden vähittäiskauppa</b>
47540	Sähköisten kodinkoneiden vähittäiskauppa

<b>4759</b>	<b>Huonekalujen, valaisimien ja muualla luokittelemattomien taloustarvikkeiden</b>
47591	Huonekalujen vähittäiskauppa
47592	Sähkötarvikkeiden ja valaisimien vähittäiskauppa
47593	Kumi- ja muovitarvikkeiden vähittäiskauppa
47594	Taloustavaroiden vähittäiskauppa
47595	Soittimien ja musiikkitarvikkeiden vähittäiskauppa
47596	Lukkoseppä- ja avainliikkeet
47599	Muualla luokittelemattomien kotitaloustarvikkeiden vähittäiskauppa
<b>476</b>	<b>Kulttuuri- ja vapaa-ajan tuotteiden vähittäiskauppa erikoismyymälöissä</b>
<b>4761</b>	<b>Kirjojen vähittäiskauppa</b>
47610	Kirjojen vähittäiskauppa
<b>4762</b>	<b>Sanomalehtien ja paperitavaran vähittäiskauppa</b>
47621	Paperi- ja toimistotarvikkeiden vähittäiskauppa
47622	Aikakausjulkaisujen ja lehtien vähittäiskauppa
<b>4763</b>	<b>Musiikki- ja videotallenteiden vähittäiskauppa</b>
47630	Musiikki- ja videotallenteiden vähittäiskauppa
<b>4764</b>	<b>Urheiluvälineiden vähittäiskauppa</b>
47641	Urheiluvälineiden ja polkupyörien vähittäiskauppa
47642	Veneiden ja veneilytarvikkeiden vähittäiskauppa
<b>4765</b>	<b>Pelien ja leikkikalujen vähittäiskauppa</b>
47650	Pelien ja leikkikalujen vähittäiskauppa
<b>477</b>	<b>Muiden tavaroiden vähittäiskauppa erikoismyymälöissä</b>
<b>4771</b>	<b>Vaatteiden vähittäiskauppa</b>
47711	Naisten vaatteiden vähittäiskauppa
47712	Miesten vaatteiden vähittäiskauppa
47713	Lastenvaatteiden vähittäiskauppa
47714	Turkisten ja nahkavaatteiden vähittäiskauppa
47715	Lakkien ja hattujen vähittäiskauppa
47719	Vaatteiden yleisvähittäiskauppa
<b>4772</b>	<b>Jalkineiden ja nahkatavaroiden vähittäiskauppa</b>
47721	Jalkineiden vähittäiskauppa
47722	Laukkujen vähittäiskauppa
<b>4773</b>	<b>Apteekit</b>
47730	Apteekit
<b>4774</b>	<b>Terveystarvikkeiden vähittäiskauppa</b>
47740	Terveystarvikkeiden vähittäiskauppa
<b>4775</b>	<b>Kosmetiikka- ja hygieniatuotteiden vähittäiskauppa</b>
47750	Kosmetiikka- ja hygieniatuotteiden vähittäiskauppa
<b>4776</b>	<b>Kukkien, kasvien, siementen, lannoitteiden, lemmikkieläinten ja niiden ruokien</b>
47761	Kukkien vähittäiskauppa
47762	Kukkakioskit
47763	Puutarha-alan vähittäiskauppa
47764	Lemmikkieläinten, niiden ruokien ja tarvikkeiden vähittäiskauppa
<b>4777</b>	<b>Kultasepänteosten ja kellojen vähittäiskauppa</b>
47770	Kultasepänteosten ja kellojen vähittäiskauppa
<b>4778</b>	<b>Muu uusien tavaroiden vähittäiskauppa</b>
47781	Taideliikkeet
47782	Valokuvausalan vähittäiskauppa
47783	Optisen alan vähittäiskauppa
47784	Lastenvaunujen ja -tarvikkeiden vähittäiskauppa
47785	Lahjatavaroiden ja askartelutarvikkeiden vähittäiskauppa
47789	Muiden uusien tavaroiden vähittäiskauppa
<b>4779</b>	<b>Käytettyjen tavaroiden vähittäiskauppa myymälöissä</b>
47791	Antiikkiliikkeet
47792	Antikvariaattikauppa
47793	Huutokauppakamarit
47799	Muiden käytettyjen tavaroiden vähittäiskauppa



## APPENDIX 2: COMPANY DATA COLLECTION FLOWCHART



APPENDIX 3: DESCRIPTIVE STATISTICS OF SURVEY RESULTS

Overall descriptives of Q3/Q4/Q5			Statistic	Std. Error
<b>Q3: Effect of music</b>  N = 42	Mean		2,55	,149
	95% Confidence Interval for Mean	Lower Bound	2,25	
		Upper Bound	2,85	
	5% Trimmed Mean		2,55	
	Median		3,00	
	Mode		3,00	
	Variance		,937	
	Std. Deviation		,968	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		1	
	Skewness		-,141	,365
	Kurtosis		-,882	,717
	<b>Q4: Feature A</b>  N = 35	Mean		2,54
95% Confidence Interval for Mean		Lower Bound	2,17	
		Upper Bound	2,92	
5% Trimmed Mean		2,55		
Median		3,00		
Mode		3,00		
Variance		1,197		
Std. Deviation		1,094		
Minimum		1		
Maximum		4		
Range		3		
Interquartile Range		1		
Skewness		-,116	,398	
Kurtosis		-1,260	,778	
<b>Q5: Feature B</b>  N = 40		Mean		2,48
	95% Confidence Interval for Mean	Lower Bound	2,14	
		Upper Bound	2,81	
	5% Trimmed Mean		2,47	
	Median		2,50	
	Mode		3,00	
	Variance		1,128	

	Std. Deviation		1,062	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		1	
	Skewness		,001	,374
	Kurtosis		-1,191	,733
<b>Descriptives of Questions 3, 4 and 5, grouped by answers to Question 2: Current use of music</b>			Statistic	Std. Error
<b>Q3: Effect of music</b>  <b>Q2 Answer = No</b>  N = 13	Mean		2,54	,243
	95% Confidence Interval for Mean	Lower Bound	2,01	
		Upper Bound	3,07	
	5% Trimmed Mean		2,54	
	Median		3,00	
	Mode		3,00	
	Variance		,769	
	Std. Deviation		,877	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		1	
	Skewness		-,575	,616
	Kurtosis		-,121	1,191
<b>Q3: Effect of music</b>  <b>Q2 Answer = Yes</b>  N = 29	Mean		2,55	,190
	95% Confidence Interval for Mean	Lower Bound	2,16	
		Upper Bound	2,94	
	5% Trimmed Mean		2,56	
	Median		3,00	
	Mode		2,00	
	Variance		1,042	
	Std. Deviation		1,021	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		1	
	Skewness		-,042	,434
	Kurtosis		-1,043	,845
<b>Q4: Feature A</b>	Mean		2,92	,348
	95% Confidence Interval for Mean	Lower Bound	2,16	
		Upper Bound	3,68	

<b>Q2 Answer = No</b>  N = 13	5% Trimmed Mean		2,97	
	Median		3,00	
	Mode		4,00	
	Variance		1,577	
	Std. Deviation		1,256	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		3	
	Skewness		-,727	,616
	Kurtosis		-1,165	1,191
<b>Q4: Feature A</b>  <b>Q2 Answer = Yes</b>  N = 22	Mean		2,32	,202
	95% Confidence Interval for Mean	Lower Bound	1,90	
		Upper Bound	2,74	
	5% Trimmed Mean		2,30	
	Median		2,00	
	Mode		3,00	
	Variance		,894	
	Std. Deviation		,945	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		1	
	Skewness		,023	,491
	Kurtosis		-,871	,953
<b>Q5: Feature B</b>  <b>Q2 Answer = No</b>  N = 13	Mean		2,54	,312
	95% Confidence Interval for Mean		1,86	
			3,22	
	5% Trimmed Mean		2,54	
	Median		3,00	
	Mode		3,00	
	Variance		1,269	
	Std. Deviation		1,127	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		2	
	Skewness		-,112	,616
	Kurtosis		-1,280	1,191

<b>Q5: Feature B</b>  <b>Q2 Answer = Yes</b>  N = 27	Mean		2,44	,202
	95% Confidence Interval for Mean	Lower Bound	2,03	
		Upper Bound	2,86	
	5% Trimmed Mean		2,44	
	Median		2,00	
	Mode		2,00	
	Variance		1,103	
	Std. Deviation		1,050	
	Minimum		1	
	Maximum		4	
	Range		3	
	Interquartile Range		1	
	Skewness		,050	,448
	Kurtosis		-1,129	,872
<b>Descriptives of Question 6</b>			Statistic	Std. Error
<b>Q6: Price</b>  N = 46	Mean		27,39	5,338
	95% Confidence Interval for Mean	Lower Bound	16,64	
		Upper Bound	38,14	
	5% Trimmed Mean		23,70	
	Median		15,00	
	Mode		0	
	Variance		1310,732	
	Std. Deviation		36,204	
	Minimum		0	
	Maximum		149	
	Range		149	
	Interquartile Range		43	
	Skewness		1,659	,350
	Kurtosis		2,244	,688
<b>Descriptives of Question 6, grouped by answers to Question 2: Current use of music</b>			Statistic	Std. Error
<b>Q6: Price</b>  <b>Q2 Answer = No</b>  N = 17	Mean		8,47	3,997
	95% Confidence Interval for Mean	Lower Bound	,00	
		Upper Bound	16,94	
	5% Trimmed Mean		6,63	
	Median		0	
	Mode		0	
	Variance		271,640	
	Std. Deviation		16,481	

	Minimum		0	
	Maximum		50	
	Range		50	
	Interquartile Range		8	
	Skewness		2,192	,550
	Kurtosis		3,772	1,063
<b>Q6: Price</b>	Mean		38,48	7,443
<b>Q2 Answer = Yes</b>	95% Confidence	Lower Bound	23,24	
	Interval for Mean	Upper Bound	53,73	
N = 29	5% Trimmed Mean		35,33	
	Median		20,00	
	Mode		20,00	
	Variance		1606,544	
	Std. Deviation		40,082	
	Minimum		0	
	Maximum		149	
	Range		149	
	Interquartile Range		40	
	Skewness		1,237	,434
	Kurtosis		,701	,845

APPENDIX 4: EFFECT OF MUSIC, INNOLINK RESEARCH OY  
(2016A)

Results for question: "Significance of background music in business operations". Data from Innolink Research Oy (2016a, 5).

Answer choice	Response count	Proportion of responses (total 251)
Music has a very notable effect	26	10.36%
Music has an effect to some degree	106	42.23%
Music does not have very much effect	64	25.50%
Music has absolutely no effect	36	14.34%
Don't Know	19	7.57%

Descriptive statistics calculated from above data using IBM SPSS Statistics software:

Descriptive statistics of Innolink Research Oy (2016a)		Statistic	Std. Error	
Effect of background music in business use N = 232	Mean	2,53	,06	
	95% Confidence Interval for Mean	Lower Bound	2,41	
		Upper Bound	2,64	
	5% Trimmed Mean	2,53		
	Median	3,00		
	Mode	3,00		
	Variance	,79		
	Std. Deviation	,89		
	Minimum	1		
	Maximum	4		
	Range	3		
	Interquartile Range	1		
	Skewness	-,27	,16	
	Kurtosis	-,69	,32	

## APPENDIX 5: STATISTICAL TEST RESULTS

P-values highlighted according to significance level: 0.05 > P , 0.05 < P , 0.01 < P

<b>Spearman's correlation coefficients (one-tailed)</b>	N	df	$r_s$	P
Hypothesis 1: Q3 and Q6	42	40	0,784	0,309908
Hypothesis 2: Q3 and Q4	33	31	-0,095	0,299944
Hypothesis 3: Q3 and Q5	36	34	-0,168	0,164584
Hypothesis 4: Q4 and Q5	33	31	0,609	0,000086
<b>Mann-Whitney U-test grouped by Q2 (two-tailed)</b>	N <sub>1</sub> ("Yes")	N <sub>2</sub> ("No")	U	P
Hypothesis 5: Q3	29	13	188,000	0,988639
Hypothesis 6: Q6	29	17	105,500	0,001048
<b>Mann-Whitney U-test mean ranks</b>	Mean rank ("Yes")	Mean rank ("No")	Sum of ranks ("Yes")	Sum of ranks ("No")
Hypothesis 5: Q3	21,48	21,54	623,00	280,00
Hypothesis 6: Q6	28,36	15,21	822,50	258,50