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**Niche market analysis and marketing
strategies applied to the Chinese market:
a case study of the tea and the coffee market
sold through e-commerce**

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前言

利基市场分析及适用于中国市场的营销策略：通过电子商务销售的茶和咖啡市场的案例研究

随着经济繁荣时代的到来, 利基市场逐渐成为企业界关注的焦点, 对其市场特性和结构的研究有利于帮助企业在激烈的竞争中快速进行产品定位, 获取市场优势。随着市场的全球化, 对定制产品的国际需求似乎正在增长。

现代市场中总有一些未被开发出来的市场需求, 随着一些全新文化产品、革命性的新成果的出现, 就更加需要去发现这些潜在需求。尤其是全球化的进程, 带动多元化文化影响, 从而使得个性化的需求不断增长, 此时的市场供给不足、产品存在的缺陷, 新需求的出现, 正是市场拓展空间的潜力所在。

微观定位的技巧-与下属机构, 企业的交流, 了解它们各自的需求和想法, 变得相当重要。

人们从来没有像现在这样对自己在日常生活中的选择更加精明和谨慎, 更加个人化并且更加全面。

尽管利基营销已被世界各地的众多公司采用, 并由不同的专家进行了分析, 但经济学文献却十分有限。

因此, 本论文旨在分析高度专业化的利基市场, 从大众市场中扩展其核心产品的能力。在一个不断变化且分散的业务环境中, 该主题如今越来越重要, 因此值得进行更深入的分析。

本文论文由三部分组成，第一章着重于对利基概念的描述，分析其历史渊源，特征，关系营销的重要性，特别是对利基公司必不可少的公司声誉以及自然产生的竞争风险。另外，对整体市场和大众市场进行了详细描述，以指出这两种市场与本研究的核心市场之间的差异。

利基是指市场中的一个独特部分，通常是客户有需求但在市场仍未得到满足的这个部分。

它的巨大成功基于专注于满足小部分群体的特定需求。

利基市场理论是在市场营销理论的基础上发展起来的。它的目的是为消费者提供最佳的产品或服务。

利基市场是指由已有市场绝对优势的企业所忽略的某些市场，而此类市场尚未提供完善的服务。

从竞争的角度来说，利基营销战略符合“集中兵力，以多战少”。从竞争的角度来说，集中优势兵力，在一个特定范围内营造比竞争对手强有力的优势，正是利基战略选择特定市场、集中资源，以相对优势的兵力与竞争对手博弈，从而赢得顾客的做法。

利基企业非常了解他们的目标顾客，能够比其他公司更好地满足消费者的需求，赢得与顾客更好的关系，利基企业与客户之间建立起一种相互依存、共生共荣的关系。

利基业务也有其优点和缺点。优点是：减少竞争，预算不多，忠诚的客户，获得专业知识。缺点是：增长潜力较小。

第二章介绍了利基市场营销策略。首先对国际利基市场营销策略进行一般性分析，然后再对应用于中国市场的策略的特殊性和有效性进行深入分析。

利基战略，则是指企业根据自身所特有的资源优势，通过专业化经营来占领这些市场，从而最大限度的获取收益所采取的竞争战略。

关于中国战略的问题，我国自从加入世界贸易组织（WTO）以来，面临越来越激烈的国际竞争，企业如果要拓展自己的业务，尽可能避免被分割，获取回报率更高的业务增长点，需要独辟蹊径选择自己的利基市场，打造自己的利基产品。

1997 年底，短缺经济其本结束，已使中国企业的成长环境开始变化，进入世界贸易组织（WTO）则使成长环境发生变化。这种新的环境条件至少会存在 15-20 年。这种变化在进入新的环境中，中国企业必须转变其战略思维。

20 世纪 80、90 年代，中国企业在自然成长的基础上所做的战略选择，占主导地位的是多元化战略。在新的时期里，中国企业成长的主导战略应该是集中化和专业化。

在新环境中，中国企业必须在指导思想，战略选择，发展支点等方面转变思维方式。

对于目前中国的企业家尤其是中小企业来说，利基营销战略更多是作为企业生存和成长的根本方式。

然后，本章重点介绍电子商务。特别是近年来，中国最常用的购买渠道是电子商务。因此，进行了关于如何通过电子商务在中国销售利基市场产品的研究。在收集了成功进入中国所需的经验方法之后，本文将继续介绍一些利基市场的例子，专门介绍农业食品领域。

随着电子商务的迅速发展，在线购物平台快速兴起，市场交易总额也保持高速增长的趋势。我国网络购物市场保持快速、稳健增长。计算机网络技术的发展使得搜索成本可以忽略不计，由于在线销售商品的种类极大丰裕，消费者会尽可能地购买满足自

己最大需求的商品而非热门商品,这也是利基商品存在于市场中的重要条件之一。随着消费者个性化需求不断增加,许多企业开始转向利基市场战略。

第三章着眼于中国的茶和咖啡市场,并考虑了每个部门的一个大众市场和一个利基电子商务市场的例子。

茶叶是农产品的一类,是农民脱贫致富的重要途径之一,各地方政府都很重视对茶业的支持。

我国茶叶细分产品主要包括绿茶、红茶、乌龙茶、花茶以及普洱茶等。

目前,茶叶市场中绿茶、乌龙茶占据主要份额,2017年二者比重分别为61%、13%。

同时,普洱茶、红茶、白茶等其他茶叶份额逐渐提升,红茶、黑茶、白茶、黄茶等茶类占26%。

预测2019年我国茶叶消费量将突破200万吨。

“一带一路”战略的实施将为我国茶叶产业的发展带来新的历史发展机遇。

“一带一路”沿线涵盖到全球4.4亿人口,这一区域是全球最重要的茶叶生产和消费区域,蕴涵着巨大的饮茶人口。中国茶叶出口金额较大的国家是摩洛哥、乌兹别克斯坦、美国、日本和俄罗斯等国家,均在“一带一路”沿线。

咖啡诞生于17世纪,是世界三大饮料之首,日常饮用的咖啡是用咖啡豆配合各种不同的烹煮器具制作出来的。与世界咖啡栽培2000多年的历史相比,中国栽培咖啡只有几百年的经历。

以欧美为代表的全球咖啡产业经历三次浪潮已经进入成熟阶段,而中国咖啡产业规模尚小、空间可观。

目前咖啡已经成为世界三大饮料之一。

在利基市场网站和大众市场网站之间的比较中，我强调了产品展示的差异。这些差异可以从产品说明，图片质量和平均价格中注意到。

值得注意的是，利基营销并非万能，不适当的运用尽管可能引起短期利润的增长，但可能导致企业长期收益的下降甚至枯竭。因此必须加强全过程的管理和控制，重视顾客反馈。利基营销的关键是运用差异化策略进入利基市场，所以，中小企业必须要根据市场和顾客需求变化不断进行调整，在调整中创新，在调整中将目标顾客和市场锁定，构筑核心竞争力，营造局部优势，开创属于自己的一片天空。

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Introduction

In the new competitive landscape, many firms have become experts in identifying precise differences among customers' needs. Armed with these understandings, companies segment customers into competitively relevant groups - groups of customers with unique needs. This kind of non-stop innovation, focusing on superior resources and on core competitiveness is a niche marketing method.

My job of thesis aims to deeply analyze the concept of niche market, taking into consideration its origin, the characteristics, the international and Chinese marketing strategies, concluding with the example of two niche market websites and two mass market websites.

Although niche marketing is applied by several companies around the world and analyzed by different economists, the economic literature is pretty limited. The aim of this thesis is to collect as much information about niche market as possible, in order to give a more complete description of this economic strategy.

I chose this topic because, during the Master degree at Ca' Foscari University, I was fascinated by the unique features of niche marketing, and how its strategies have a huge impact on brands' economy. Nowadays this argument is very relevant for smaller companies if they want to sell in China and reach the particular requests of the consumers in the right way. So, the main purpose of this thesis is to investigate this topic to deeply understand how this marketing mechanism works.

This thesis is divided in three chapters subdivides as follows: the first chapter is an assessment of literature in this area trying to develop a framework for evaluation, development, and application of international generic niche marketing strategies. After delineating the description of the term, from an historical and an economic point of view, the chapter carefully examines the characteristics of the niche market. Each paragraph aims to expose the peculiarities of this marketing method, which is often viewed as a superior approach for small or specialized firms. The underlying reason for this view is that niche markets have been claimed to be more profitable, and the increasing diversity in consumer tastes and habits, as well as the changing needs of business and organizational markets, seem to favour smaller firms that can better tailor their offerings to this fragmented market. Consequently, niche marketing,

which can be understood as focused marketing that is directed at a limited and specialized market with relatively few customers and competitors, has been reported to have been successfully applied by firms throughout the world.

The chapter continues talking about the importance of relationship marketing, especially on the reputation of a firm, which is essential for a niche company, and on the risk of competition that naturally arises among these companies. The central part of the chapter focuses instead on the analysis of the advantages and disadvantages that every niche company will encounter.

Finally, the chapter uncovers segmentation marketing and mass marketing, in order to point out the differences between these two kinds of market and the market that is at the heart of this study.

In the second chapter the focus moves on the marketing strategies applied by niche companies. The research question of this section is: which strategic directions do niche firms follow in their pursuit of growth. In order to answer to this question, a general analysis of international niche marketing strategies is carried out, followed by an in-depth study of the specificities and efficacy of the strategies applied to the Chinese market.

The chapter then focuses on e-commerce. Especially in recent years, the most used buying channel in China is e-commerce. It follows that, a research about how niche market products are sold through e-commerce in China is conducted. After having collected the necessary knowledge to successfully land in China, the thesis continues with a section of niche market examples, specifically describing the agri-food sector.

Lastly, the third chapter uncovers the tea and coffee market in China, taking into account one mass and one niche e-commerce market example for each sector.

The first sector takes into account the tea market, briefly analyzing the history of this industry. Afterwards, an analysis is carried out on the tea market in China, demonstrating, through the graphs, that it is a market with great potential.

Finally, the analysis shifts to the coffee market. This area firstly refers to the international coffee market, and then it focuses on the specific Chinese business.

What has come out of the thesis, is that the ever-increasing diversity in consumer tastes and habits as well as changing needs of business and organizational markets, coupled with competition, structural changes in markets, continuous advancement in technologies do not

only create new marketing approaches and methods but also threaten large companies and question the validity of their traditional marketing methods and practices. Niche marketing is among the most frequently mentioned marketing methods in the business press recently. However, when it comes to international markets, the need for new marketing approaches and methods becomes more urgent due to the fact that many companies from different countries compete for the same host markets. International marketers need applicable, operationalized methods to be more successful in foreign markets.

My research was conducted with the support of academic online resources, provided by European Journal of Marketing website and other online resources such as Finance Sina and China Market. The books, titled “Microtrends: The Small Forces Behind Tomorrow’s Big Changes”, written by Mark J. Penn, and “Making Niche Marketing Work” by E. R. Linnemann and L. J. Stanton, were very supportive as well.

To summarize I would say that my thesis aims to expose all the features of this marketing method, the history of its development, and its impact on Chinese society. The study of niche marketing is important to understand that this strategy is able to meet the full needs of special customer groups and form an irreplaceable market. It is based on the thinking of customers, competition, and corporate strength, taking customer relationships as the ultimate focus, as an extension of the market segmentation strategy. Persistent niche attitudes combined with continuous innovation in niche methods are the fundamental principles for enterprises to continue to grow and maintain a long-lasting foundation.

CHAPTER 1

The niche market

1.1 Niche and the niche market definition

In the new competitive landscape, where undeveloped market demands are a constant, and the increased diversity of markets and the advanced technologies are implementing new marketing approaches, niche marketing seems an appropriate approach to be employed in this evolving environment. ¹

With the emergence of some new cultural products and revolutionary new achievements, it is even more necessary to discover these potential needs. In particular, the process of globalization has driven the influence of diversified cultures, which has led to the continuous growth of personalized demand. At this time, insufficient market supply, defects in products, and the emergence of new demands are precisely the potential of market expansion. The "blind spot" of the market is often the selling point of the niche market, consumers will try their best to buy products that meet their biggest needs instead of popular products.

As a consequence of consumer demand for personalization, many firms have become adept at identifying precise differences among customers' needs, and the niche market has gradually become the focus of attention of the business community.

Armed with these understandings, companies segment customers into competitively relevant groups—groups of customers with unique needs. ² This kind of non-stop innovation, focusing on superior resources, product positioning and focusing on core competitiveness is a niche marketing method.

A niche is a focused portion of a broader market, occupied by a small section of customers with similar interests and needs, in which specialized products or services are offered.

¹ Tevfik DALGIC, "Euromarketing: Charting the Map for Globalization", *International Marketing Review*, Vol. 9, No. 5, 1992, pp. 31-42

² Michael A. HITT, R. Duane IRELAND, and Robert E. HOSKISSON, *Strategic Management: Competitiveness and Globalization*, Cincinnati, South- western College Publishing, 1999

Niche marketing is often understood as focused marketing towards a limited market consisting of a few customers and competitors, where the concepts of firm specialization, product differentiation, customer focus and relationship marketing are frequently applied.

Historically, the term niche comes from French. In France, people believe in Catholicism, when building houses, they often cut a small shrine on the outer wall, for the Virgin Mary. Although it is small, its boundaries are clear and the holes are long, so the term was later introduced to describe the smaller part of a market.

In English, it refers to the stone cracks on the cliff. When climbing, people use these tiny gaps as fulcrum to climb upwards. In the 1980s, American business school scholars began to introduce the term to the field of marketing.

A niche, according to the *Webster's Dictionary*³, is a recessed space or hollow; a recess in a wall especially for a statue.

According to the *Cambridge Dictionary*⁴, it is a hollow made in a wall, especially one designed to put a statue in so that it can be seen.

A recessed space or hollow implies that three of the four sides are protected, while there is an opening to the fourth – the larger referral market. This interpretation has two implications: first, a niche market may need a larger reference market for making a meaningful definition. It is much easier to contrast and compare something when there is already an existing reference in place. Second, the three protective sides of a “recessed space” resemble those of a situation of limited competition, where there are effective barriers preventing competitors from entering the niche marketplace.⁵

A relationship may be drawn between the ecological niche and the market niche: according to the *Penguin Dictionary of Biology*⁶ an ecological niche has the following meanings:

³ *Webster's Dictionary*, Pamco Publishing Co., New York, NY, 1992.

⁴ *Cambridge Advanced Learner's Dictionary & Thesaurus*, Cambridge University Press 2020

⁵ Wei Du, 杜玮, “Hùliánwǎng jīngjì shídài xià de “cháng wěi yíngxiāo” lǐlùn jí qí yìngyòng cèlüè yánjiū” 互联网经济时代下的 “长尾营销” 理论及其应用策略研究 (Research on "Long Tail Marketing" Theory and Its Application Strategy in the Internet Economy Era), *China Market*, No. 22, August 2018, pp. 118-119

⁶ Michael THAIN, Michael HICKMAN, Michael ABERCROMBIE, C. J. HICKMAN and N. I. Johnson, *Penguin Dictionary of Biology*, London, Penguin books, 2004

A particular role or set of relationships of organisms in an eco system which may be filled by different species in different geographical areas. ⁷

This definition implies a way of earning a living, as such, the ecological niche concept explains that in nature research has observed that different geographical areas host different groups of species. These species have been shown to prefer to avoid cohabitation as an act of self-preservation by ensuring there are enough resources to go around; hence a small and specialized focus. In both cases, organisms and organizations live in their immediate physical environment and are able to continue their life forms in a changing environment, without being threatened by the environmental forces. What the term implies in a business context is a situation or activity that is ideally suited to a particular person, group of people or personality type.

Niche marketers are steadily becoming more present than the traditional mass markets. New demands, changing customer impulses and further individualization, have created a myriad of fractured markets in contrast to what once was a smooth mass market. This fragmented market, is mainly technology driven. American and European mass markets have been broken down into fragmented markets due to several reasons since the Second World War; these reasons, as Linneman and Stanton ⁸ have described, which have contributed to this outpouring of smaller markets, are:

- single-parent households, families with double income and no children, yuppies (a well-paid young middle-class professional who works in a city job and has a luxurious lifestyle);
- working women, overweight people, tall people;
- increase of minority markets;
- technological advances;
- the evolution of consumer countervailing power;
- changing demographics and lifestyles;
- the demands on personal time;
- overcrowding by too many products, services and stores;

⁷ Christopher Allen STACHOWSKI, "The niche marketing strategy in internationally-oriented small and medium enterprises: A literature review and lessons for New Zealand", in *Small Enterprise Research*, Volume 19, Issue 2, December 2012

⁸ E.R. LINNEMAN and L.J. STANTON, *Making Niche Marketing Work*, McGraw-Hill, New York, NY, 1991

- the decline in brand loyalty;
- advertising clutter and waste;
- for the discount promotion method.

To fulfil the requests of these newly emerging markets requires flexibility and differentiation. In today's fragmented market companies have to tailor their products and marketing mix to suit the different tastes of the customers. In niche marketing the main target is the customer and the profit; niche marketers concentrate on serving marketing niches. Instead of pursuing the entire market (mass marketing), or large segments of the market, these firms target segments within segments. By definition, companies focused on niche markets are meeting the demand for unresolved products or services from mainstream providers. Building a niche market gives companies the opportunity to provide products and services to groups that other businesses ignore.

From an economic point of view, the *Cambridge Dictionary*⁹ describes a niche as: an area or position that is exactly suitable for a small group of the same type.

Dalgic and Leeuw¹⁰ also mention other definitions of niche: they defined it as a pocket and as a small market that is not served by competing products. Their own definition describes a niche to be a small market consisting of an individual customer or a small group of customers with similar characteristics or needs.

On the other hand, Philip Kotler¹¹ defines a niche as a more narrowly defined group, typically a small market whose needs are not being well served. In a 75 percent response survey conducted by Stanton and Linneman¹², the results showed that almost all of these firms have in some way started to serve smaller market segments to be closer to their customers.

Exploiting a narrow, specialized segment of a broad, diverse market can bring in solid profits. By targeting a well-defined market, the organization can then offer tailored products and services to a particular group of customers.¹³

⁹ *Cambridge Advanced Learner's Dictionary & Thesaurus*, Cambridge University Press 2020

¹⁰ Tefvik DALGIC and Marteen LEEUW, "Niche Marketing Revisited: Concept, Applications and Some European Cases", in *European Journal of Marketing*, vol. 28, No. 4, 1994, pp. 39-55, MCB University Press

¹¹ Philip KOTLER, Gary Armstrong, *Principles of Marketing*, Englewood Cliffs, Prentice Hall, 1996

¹² E.R. LINNEMAN and L.J. STANTON, *Making Niche Marketing Work*, McGraw-Hill, New York, NY, 1991

¹³ Tefvik DALGIC, *Handbook of Niche Marketing: Principles and Practice*, New York, NY, Best Business Books, 2006

Based on the aspects of differentiation and distinctiveness, the first defining criterion for a niche market that is proposed is specificity. When pursuing a niche marketing strategy, companies will have to aim for market positions that are highly specific.¹⁴ Specificity, however, does not exist *per se*, as it can be established only by considering at least two elements in relation to each other. This relative nature also holds true for niche markets. Whether a niche market is referred to as having a small market volume, a low degree of competition or a higher price level – all of these aspects have to be regarded in relation to a counterpart, i.e. a referral market. This counterpart is generally referred to as the mass market, i.e. a relatively large market segment at a low level of granularity.

Thus, the second distinguishing criterion of a niche market that is proposed is relativity. A niche market cannot exist on its own, but only in relation to a mass market. While this criterion clearly applies to niche markets that have developed out of an established mass market (e.g. hybrid electric vehicles in relation to the established car market), it does not prevent a new and emerging market from being considered a niche market.

A niche market is defined, on the basis of the aspects of specificity and relativity, as a market segment with products possessing a higher degree of relative specificity than corresponding mass market products. The relative specificity of a product is influenced by the number of products with a similar market position. When comparing two complementary products – one aiming at the mass market and the other at the niche market – the product attributes will create a significantly higher degree of relative specificity. At the same time, there will thus be a lower product variety in a niche market than in the respective mass market.¹⁵

Many kinds of companies adequately use niche marketing strategies in their overall marketing campaigns. It is an especially appropriate approach for smaller companies with limited budgets and products or services that are targeted toward a particular segment of the population.¹⁶ This method concentrates the promotion of the commercial utility, be it a good

¹⁴ ANN Echols and WENPIN Tsai, *Niche and performance: the moderating role of network embeddedness*, in “Strategic Management Journal”, Vol. 26 No. 3, March 2005, pp. 219-238, https://www.researchgate.net/publication/227609314_Niche_and_Performance_The_Moderating_Role_of_Network_Embeddedness, July, 2020

¹⁵ Tobias SCHAEFERS, “Standing out From the Crowd: Niche Product Choice as a Form of Conspicuous Consumption”, *European Journal of Marketing*, 48(9/10), 1805-1827, 2014

¹⁶ *Niche Marketing*, in Marketing-Schools.org, ”, 2012, <https://www.marketing-schools.org/types-of-marketing/niche-marketing.html> , June, 2020

or a service, upon a clearly specific target audience which is just a portion of the buyer population. Such ideas are often applied to those consumer segments that do not fall under the section of mass market.

When a company begins to implement a niche marketing plan, their first attempt is to answer important questions. Because niche marketing is targeted and specialized, it requires a strong background in consumer research, as well as a deep understanding of marketing principles and strategies.

When projecting a niche marketing plan, a company should firstly identify a potential niche, subsequently conduct a research on the market. This means that the company should verify if a latent demand in a particular position of the market exists. If it does exist, it should have a high growth potential and be accessible. To do this analysis, the company has to collect information on the industry trends, the major competitors and their strategies. By understanding the market better than the competition, a firm will be better placed to identify the most lucrative segments.

Secondly, the company should make sure that the merchandise offered is sufficiently differentiated to trigger consumer response. To ensure this, the combination of product attributes must be assessed in detail and therefore, the effect on consumers understood.

Thirdly, the company should make an analysis to ensure that the niche is capable of protection against competition, using a specific procedure that is unique to the company and which cannot be imitated or reproduced by others.

The last step is the development of strategic actions. There are three main types of niche strategic actions:

- strategic actions based on enterprises, including quality leadership, improvement and innovation.
- customer - based strategic actions, including close customer relationships and expanding new territories to develop new customers.
- strategic action based on competition, including building barriers in various ways and gaining sustainable competitive advantages.

We may conclude that niche marketing could be explained as positioning into limited, profitable homogeneous market segments which have been rejected or neglected by others.

This positioning depends on the integrated marketing concept and the distinctive qualifications the company possesses.

1.2 Niche market characteristics

To achieve a successful niche marketing strategy, several activities should be followed. Among the most important, the following characteristics may be illustrative for niche activities¹⁷:

- Concentrating all the resources on a small product, and at the same time occupy a wide geographical area. In the face of market globalization, the marketing resources of human, material, financial, technical, productivity, sales, brand and management are much scarcer than those of multinational enterprises. Therefore, how to make full use of the existing resources, determine a reasonable combination of resources and achieve the effect of value-added resource, has become a major marketing strategy. Under the premise of the existence of strong competitors, companies must follow the principle of centralized allocation of resources in the narrow market where competitors ignore, and consumers are not satisfied¹⁸;
- Thinking and acting small by offering limited production volumes. As a confirm, McKenna¹⁹, writes that most large markets evolve from niche markets. The market size is small enough that it will not attract the consideration and interest of large enterprises;
- Geographical scope and global versatility;
- The market must have irreplaceable products;
- Focusing on a few customers and avoiding markets with many competitors or a leading competitor. The Venn Diagram, shows the perfect combination for targeting a distinct segment market: heavy demand for a product or service, high income potential, and light competition. There is high-return potential for niche marketers who can research a specific market and find a segment that has two or all three of these characteristics. An ideal profitable niche market is one that is already

¹⁷ K. BAKINOUSKAYA, R. BIONDANI, C. Sani TIRYAKI, *Brand Extension Pathway for niche players*, Master in Corporate and Financial Mangement, Lund University, academic year 2008/2009

¹⁸ Erin PARRISH, Nancy L. CASSIL and William OXENHAM, "Niche market strategy for a mature marketplace", *Marketing Intelligence and Planning*, vol. 24, no. 7, 2005, pp. 694-707

¹⁹ Regis MCKENNA, "Marketing in an Age of Diversity", *Harvard Business Review*, November- December 1988, pp. 88-95

experiencing growth, has an available customer base, and is not already dominated by established suppliers;

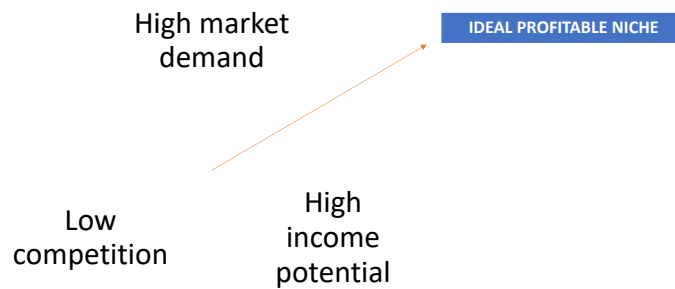


Figure 1 - represents the ideal profitable niche graph

- Building long-term and strong relationships with the potential customers;
- Focusing on customer needs and customer goodwill towards the product or the company, as the customers in the niche have a distinct set of needs and will pay a premium price;
- Treasure firm reputation based on long-term mutual benefit with the customers and using word-of-mouth references, the top management stays in direct and regular contact with key customers;
- The niche marketer gains certain economies through specialization and differentiation;
- Niche marketers are strongly dedicated to their customers and offer superior performance, responsive service, and punctual delivery;
- Charging a premium price, rather than low price;
- Profitability, the company must be of a sufficient size to be potentially profitable and possess growth potential;
- Sustainable development: the ability to establish strong barriers so that other companies cannot easily imitate or replace them;

- The value of research is another component of a niche market strategy, gathering information over a long period of time, rather than a last-minute study, is fundamental.

Another group of researchers, Hammermesh *et al.* ²⁰, found the following niching features, after evaluating successful niche marketers:

- an ability to dynamically segment the market, concentrating activities only on areas where a business has unique strengths that are highly valued;
- effective use of research and development capital, using them where they can be most successful;
- thinking small: embracing a “small is beautiful approach”.

In addition, the niche entrepreneurs can be characterized into groups:

- Ultrafocused nichers, they try to build very strong positions in very small markets, focusing on a market-oriented strategy, they offer a small and specific product to a broad geographic area ²¹;
- Globally oriented nichers, have a global vision, an internationally experience management and a worldwide organization. This group of niche entrepreneurs does not focus on a single country or culture, instead they think globally.;
- Customer-oriented nichers, have a strong customer orientation, as the customer change, they change. They compete on value through quality, technology, and product design;
- Ethnic nichers, they are small SMEs (small and medium-sized enterprises) who are niche based on ethnicity, focused on culture in more than one market and serve a narrow market. The products are based on unique ethnic and national consumption patterns, such as food and dress code.

²⁰ R. G. HAMMERMESH, M. J. ANDERSON and J. E. HARRIS, “Strategies for low market share businesses”, *Harvard Business Review*, Vol. 50, No. 3, 1978, pp. 95-102

²¹ Simon HERMANN, "Lessons from Germany's Midsize Giants", *Harvard Business Review*, No. 70 (March-April), 1992, pp. 115-123

1.3 Customers and the relationship marketing

Besides understanding the niche marketing strategy from the perspective of market segmentation, strategy, and competition, to really understand it, we can also analyze the niche marketing strategy from the dimensions of customers and customer relationships. Customer-level marketing is a more aggressive and precise marketing method, which provides corresponding products and services for each customer's individual needs.

Relationship marketing may be defined as a marketing strategy that seeks to establish an ongoing business relationship with customers whereby the product becomes the total relationship.

Since the Second World War, the development of large-scale mass production capacity in the world has been extremely rapid. Up to now, the common needs of most of the world's population have been fully or even excessively met. On the other hand, the personalized needs of consumers are sweeping the world under the support of solid material and technical force. The result of the contradictory interaction between large-scale production and personalized demand is that the market turns from the manufacturer's production to the customer's demand, and the market changes from the general seller's market to the general buyer's market. In a word, consumer power has reshaped the new market pattern. In this situation, the personalized demand of consumers has become the focus of enterprises. The increasingly subdivided market based on personalized demand makes many large enterprises become the future, and brings unlimited space for countless small and medium-sized enterprises, although the space is divided into many small parts.

Due to the fact that the business operates in a small sector, the relationship between the company and the brand becomes deeper, which is also a key to customer loyalty. Niche marketing firms establish a positive relationship with the customers. These companies know their target customers very well and can better meet consumer needs and win better relationships with customers than other companies. Niche companies and customers have established an interdependent and symbiotic relationship.

Furthermore, niche businesses are often high margin business. Customers do not mind spending a little extra because, they are only able to get that service in that business or under that brand.

A niche firm's marketing strategy should be based on a customer-valued competitive advantage, establishing long-term, one-to-one relationships with customers where possible, and adopting a customer focus. The potential of a niche market depends on a strong, loyal consumer base that would not easily be swayed by the competition and on a smaller and more specialized nature that would not attract too much competition. On the one hand, the service target of niche enterprises is a specific group; on the other hand, the quality advantage of niche products or services makes it difficult for customers to find other alternatives. The higher the quality and service level of a product, the higher the transfer value provided by the company, the higher the customer's transfer cost, and the higher the customer loyalty. As niche companies provide products and services specifically for niche markets, niche companies are more aware of customer needs and can fully meet purchaser needs, enabling them to obtain more transfer value, achieving customer satisfaction, and forming loyal clients to repeat purchases, exclude competitors and effectively defend niche markets.

In order to create a better positioning for the niche product in the marketplace, entrepreneurs have to differentiate their product from the competitor. The product should include added values like service, good customer perception, quality, word-of-mouth references, company image, etcetera. Customer focus helps companies to respond faster to the dynamic changes in customer demand, putting the client at the top of the management agenda.

Through this win/win situation a company will be able to create a barrier to deter potential competitors and sustain long term profitability as well as customer retention and supplier relationships.

The relationship marketing process incorporates three key elements:

- Identifying and creating a database of existing and potential clients. To keep track of buyer tastes and to extend the marketing performance, a customer
- database is essential. ²²
- Delivering differentiated messages to the customers.
- Tracking each relationship to check the cost of acquiring the consumer and the lifetime value of his purchases.

²² Robert C. BLATTBERG and John DEIGHTON J., "Interactive Marketing: Exploiting the Age of Addressability", *Sloan Management Review*, Vol. 33 No. 1, 1991, pp. 5-14

1.3.1 Reputation of a niche company

The other aspect of major importance to niche marketers is reputation. In niche marketing you do not only advertise your product, you also market your business; credibility is crucial. According to McKenna ²³, “niche marketing depends on word-of-mouth references and infrastructure development, a broadening of people in related industries whose opinions are crucial to the product’s success”.

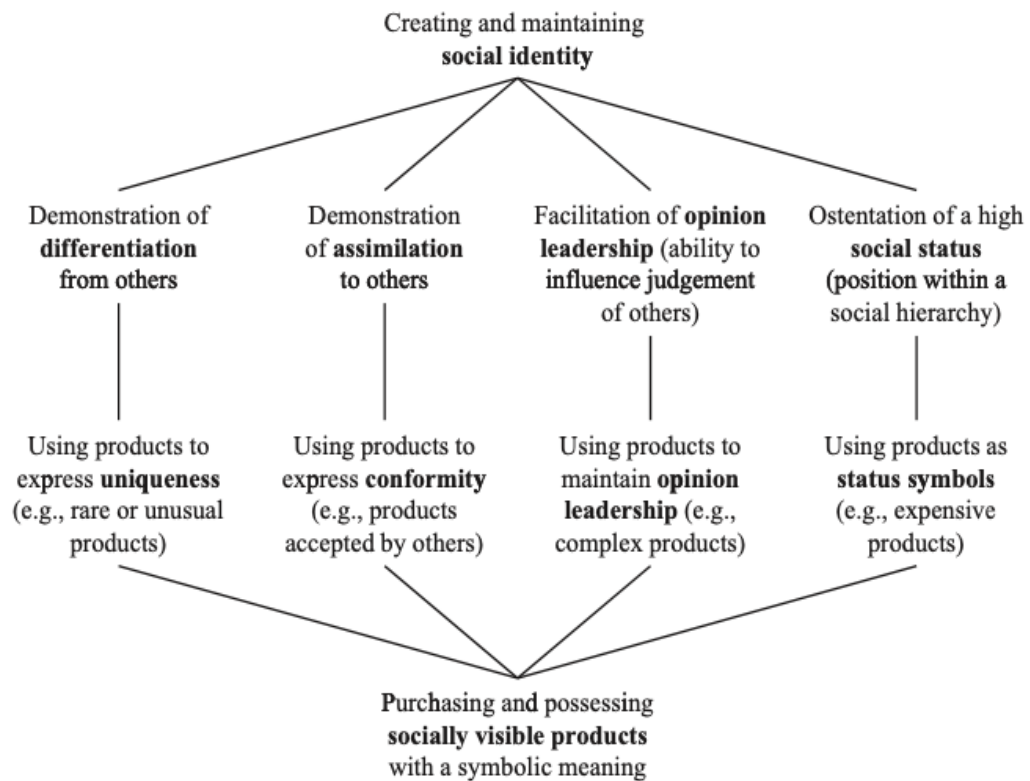
Consumers’ choice may be supported by the fact that the specific peculiarities of a niche product satisfy their demand better than the relatively less specific mass market counterparts. Furthermore, however, since niche products are clearly distinguished from other products, it is feasible that they are also used to achieve social recognition. ²⁴ Possessing niche goods may therefore serve the desire for conspicuous consumption, i.e. the act of using products as symbols to influence others’ perception of oneself and thereby satisfying social needs ²⁵. Consumers would thus decide for niche products to achieve the intended levels of differentiation compared to others. ²⁶

²³ R. MCKENNA, “Marketing in an Age of Diversity”, *Harvard Business Review*, November- December 1988, pp. 88-95

²⁴ Roger S. MASON, reviews of “Conspicuous Consumption: A Study of Exceptional Consumer Behaviour”, *Journal of Economic Issues*, Vol. 17, No. 3, 1983

²⁵ Georgios PATSIAOURAS and James A. FITCHETT, “The evolution of conspicuous consumption”, *Journal of Historical Research in Marketing*, Vol. 4, No. 1, 2012, pp. 154-176

²⁶ Marilyn B. BREWER, “Optimal distinctiveness, social identity, and the self”, *Handbook of Self and Identity*, The Guilford Press, New York, NY, 2003, pp. 480-491



Source: Gierl and Huettl (2010)

Figure 2 - An extended means-end model of conspicuous consumption. Source: Gierl and Huettl (2010) ²⁷

The proposed definition of niche markets reveals an evident link between the behavior of niche market customers and conspicuous consumption. Generally, niche market customers represent consumers whose needs are not ideally met by common mass market products. In addition, however, the high level of relative specificity of niche products makes these well suited for symbolic consumption. It can therefore be concluded that conspicuous consumption plays an important role for consumers' preferences for niche products.

From the proposed extended framework of conspicuous consumption, four determinants of consumers' niche product choice can be derived:

²⁷ Heribert GIERL, Verena HUETTTL-HAACK, "Are scarce products always more attractive? The interaction of different types of scarcity signals with products' sustainability for conspicuous consumption", *International Journal of Research in Marketing*, 27(3): 225-235, September 2010

- consumers' desire for exclusive products;
- susceptibility to interpersonal influence;
- opinion leadership; and
- status orientation.

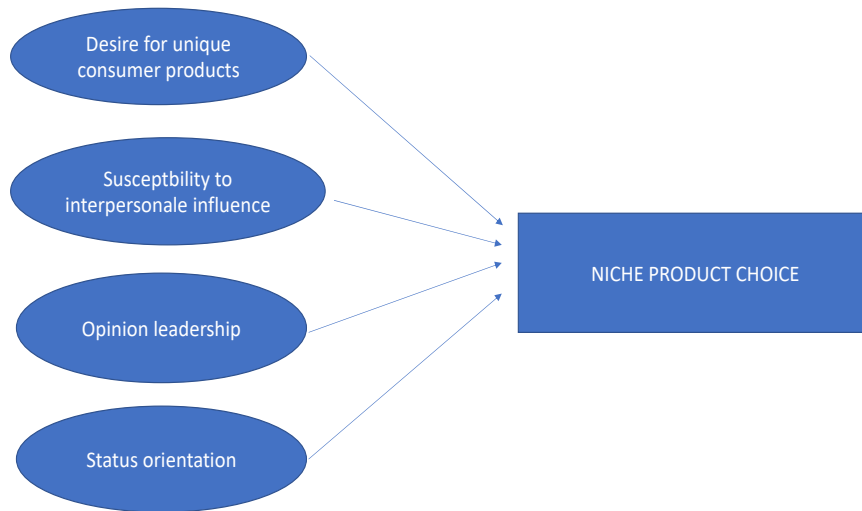


Figure 3 - The corresponding model

Desire for unique consumer products

Consumers' general need for uniqueness describes “the trait of pursuing differentness relative to others through the acquisition, utilization and disposition of consumer goods”.²⁸ One way to satisfy this need is to purchase distinct products. As niche products are more unique and are purchased by a limited number of consumers than comparable mass market products, they may act as a means for addressing the desire for uniqueness. This implies that niche products are not only purchased because they meet customers' functional needs better than corresponding mass market products but also because of their symbolic meaning.²⁹

²⁸ Kelly T. TIAN, William O. BEARDEN and Gary L. HUNTER, “Consumers' need for uniqueness: scale development and validation”, *Journal of Consumer Research*, Vol. 28, No. 1, 2001, pp. 50-66

²⁹ Michael LYNN and Judy HARRIS, “The desire for unique consumer products: a new individual differences scale”, *Psychology & Marketing*, Vol. 14, No. 6, 1997, pp. 601-616

Susceptibility to interpersonal influence

In addition to the desire for uniqueness, purchase decisions can thus be controlled by the expectations of others, purchasing a specific product can be used to demonstrate one's conformity. Two dimensions of interpersonal influence are commonly distinguished – informational and normative interpersonal influence. The former refers to the perception, recognition and use of information provided by others when evaluating products. Normative social influence, on the other hand, describes the pressure to conform to norms, values and expectations of others³⁰, and includes the desire to purchase products that will improve one's social appearance.

Opinion leadership

The position that consumers take in their social environment is another aspect of conspicuous consumption. Consumers differ in their influences on others' consumption behavior; those who affect others' purchase decisions to an exceptional extent are regarded as opinion leaders. Such consumers are characterized by their high levels of attention towards product-related information and product-related knowledge. Moreover, to keep the position as an opinion leader, they need to constantly ensure their on-going influence on others by pursuing conspicuous consumption to demonstrate this leadership position.

Status orientation

Consumers' status orientation encompasses the motivation to enhance one's social standing through consumption of products that confer status.³¹ Individuals with high levels of status orientation will engage in conspicuous consumption, i.e. purchase products that are distinct and socially visible. On a general level, when addressing a niche market, managers should explicitly consider conspicuous consumption as a key driver of demand.

It should be noted that besides the hypothesized conspicuous role of niche products, the innovative function of such products needs to be distinguished. As previously noted, a niche market may comprise innovative goods and grow into a mass market over time. Choosing a

³¹ Jacqueline K. EASTMAN, Ronald E. GOLDSMITH, and Leisa R. FLYNN, "Status consumption in consumer behavior: scale development and validation", *Journal of Marketing Theory & Practice*, Vol. 7, No. 3, 1999, pp. 41-52

niche product over a comparable mass market product could thus be a way for early adopters to satisfy their innovativeness.

According to McKenna³², "niche marketing depends on word-of-mouth references and infrastructure development, a broadening of people in related industries whose opinions are crucial to the product's success". To fulfill the demands of the ever changing markets requires additional organizational and managerial flexibility and differentiation for establishing, maintaining and further developing relationships with the customers. They should know why some old customers have left them and try to regain their loyalty, at the same time they should adopt a strategy of customer retaining, together with developing new products to gain potential customers. This requires a comprehensive customer relationship strategy.

This relationship can be seen in the Table 1 below³³

Customer type	Customer relationship strategi
Past	Regain
Existing	Retain
Potential	Gain

Table 1 - Customer types and customer relationship strategies

In conclusion, the central theme in relationship marketing is that those companies which can relate to and satisfy the customer in the most comprehensive way over a period of time will survive and thrive competitively.

³² R. MCKENNA, "Marketing in an Age of Diversity", *Harvard Business Review*, November- December 1988, pp. 88-95

³³ Dalgic TEVFIK, *Principles of niche marketing: the guerrillas against the gorillas*, the Netherlands, Hogeschool van Utrecht and the University of Amsterdam, 1997

1.4 Competition

Competition in certain sectors is so extreme that concentration or differentiation are the only way to generate an above-average return. Successful niche firms usually create value by maintaining a significant competitive advantage. Competitive strategy is a regular system of activities administered in order to create a strategic advantage over competitors under the direction of the overall business strategy of the enterprise. Competitive strategy is an important part of the company's overall business strategy, and strategic advantage is the core of the competitive strategy.

From the competitive point of view, niche marketing strategy is in line with “concentrate our forces to fight more and fight less”, at the same time, it is also in line with “eliminate the enemy's living power in the movement”. From the perspective of competition, concentrating superior strength and creating a stronger advantage over competitors in a specific range is precisely the niche strategy to select unique markets and concentrate resources, gaining customers with comparative advantage in rivalry with competitors.

Due to the intensification of competition, niche marketing may help companies to remain among the healthy survivors. A niche reflects the distinctiveness of an organization compared to other players in the competitive arena. As such, a niche describes not only a firm's competitive environment, but also how it competes with others.³⁴ Thus, it could be concluded that occupying a niche implies offering a unique selling proposition (USP) with a product or a set of products.³⁵

Competitive strategy is a strategy for the integrity, long-term, and fundamental issues in competition, and development strategy is a strategy for the overall, long-term, and fundamental issues in development.

In his classic book "Competitive Strategy"³⁶, Michael Porter proposed an industry structure analysis model, the so-called "five force model", where he explains that the state of

³⁴ Glenn R. CARROLL, “Concentration and specialization: dynamics of niche width in populations of organizations”, *American Journal of Sociology*, Vol. 90, 1985, pp. 1262–1283.

³⁵ Erin Dodd PARRISH, “Opportunities in the international textile and apparel marketplace for niche markets”, *Journal of Fashion Marketing and Management*, vol. 8, No. 1, 2004, pp. 41-57

³⁶ Michael E. PORTER, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York, NY, Simon & Schuster Inc., 2004

competition within an industry depends on the interaction of five basic competitiveness, and each of these forces is affected by many economic and technological factors and characteristics. The five competitive forces jointly determine the competitive strength and ultimate profit potential of an industry. The following are the five sources of competition ³⁷:

- the intensity of rivalry among existing competitors;
- the barriers to entry for new competitors;
- the threat of substitute products and services;
- the bargaining power of suppliers; and
- the bargaining power of buyers.



Figure 4 - represents the concept of competitive rivalry. ³⁸

Porter believes that these five forces directly determine the profitability of the industry by affecting prices, costs and the investment required by the enterprise, and the factors that

³⁷ Michael E. PORTER, *Competitive Advantage: creating and sustaining superior performance*, New York, NY, Free Press, 1985

³⁸ Porter's Five model: *Understanding Competitive Forces to Maximize Profitability*, in "Mind Tools", https://www.mindtools.com/pages/article/newtmc_08.htm, June, 2020

determine competition include industry growth, cyclical overproduction, product differences, trademark exclusivity, information complexity, company risks, exit barriers, and diversity of competitors. Factors that threaten alternatives are the relative price performance of alternatives, switching costs, and customers' tendency to use alternatives. In the process of constantly changing and adjusting market supply and demand, the structure of the industry determines the rate at which competitors increase new supply, and the barriers to invasion determine whether new intruders act.

In Michael Porter's view, competitive advantage is at the core of any strategy, and each basic strategy involves a very different approach to competitive advantage and the use of strategic objectives to frame the type of competition in order to establish competitive advantage.

The competitive advantage comes from many independent activities such as product design, production, marketing, sales and transportation within the enterprise. These activities contribute to the relative cost status of the enterprise and at the same time form the basis of differentiation. The process of implementing a competitive strategy is essentially the process by which companies seek, maintain, and create competitive advantages. Therefore, when analyzing the source of competitive advantage, there must be a systematic method to examine all activities within the enterprise and the interrelationship between activities. In order to systematically identify and analyze the sources of corporate competitive advantage, Porter proposed the important theoretical concept of "value chain".

The value chain is a set of basic tools for analyzing sources of advantages. The various activities of an enterprise are both independent and interlinked. Enterprises should formulate a set of appropriate coordination methods based on the source of competitive advantage and through understanding the organizational structure and the value chain, the internal connection of the value chain, and its connection with suppliers or marketing channels, formulate a set of appropriate coordination methods, and the organizational structure designed according to the needs of the value chain helps to form the ability of enterprises to create and maintain competitive advantages. The company's value chain can be further connected with the upstream supplier and downstream buyer's value chain to form an industry value chain.

Porter believes: "Each enterprise's value chain is composed of five basic activity categories that are connected in a unique way." Specifically, it refers to the five basic activities of internal logistics, production operations, external logistics, marketing and sales and four auxiliary activities of procurement, technology development, human resource management, and enterprise infrastructure.

Competitive strategy is that an enterprise adopts offensive or defensive behavior in the competition of the same use value. The popular strategy is to cut prices, not only hit the other party, but also damage themselves, forming a negative effect and entering a vicious circle. The correct competitive strategy is:

- overall cost leadership
- differentiation strategy, which is also called unique strategy
- centralization strategy, which is also called target concentration strategy.

The first strategy is to reduce the effort, reduce the price of goods through low cost, and maintain a competitive advantage. To achieve cost leadership, it is necessary to strictly control costs in terms of management.

The second strategy is that the products or services provided by the company are unique, or have many functions, or new styles. If a unique strategy can be performed, it becomes a viable strategy to win extraordinary profits in the industry, because it can establish a defensive position against the competitive forces and use customers' loyalty to the brand to be in a competitive advantage.

The last strategy is to target a specific customer group, a segment of a product line, or a regional market. The premise is that the company can serve a narrow strategic target with higher efficiency and better results, so as to surpass competitors in a wider range.

Porter extended his research to national competitiveness. In response to this theme, the expert proposed an analytical framework for the "diamond system" (also known as the "diamond theory"). The diamond system is a dynamic system, each of its internal factors will affect each other, at the same time, government policies, cultural factors, and leadership charm will have a great influence on various factors.

Porter believes that factors that may strengthen the competitive advantages of domestic companies include:

- Factors of production: they refer to a country 's ability to transform basic conditions (such as natural resources, education, infrastructure) into special advantages, such as a high degree of expertise and applied technology;
- Demand status: refers to the quantity and maturity of domestic market demand for products or services provided by the industry;

- The strategy, structure and competitors of an enterprise: the organization, management and competition of an enterprise all depend on the environment and history of the location. If the location of the enterprise encourages innovation, the enterprise will be competitive. In addition, if there are strong local competitors, it will also stimulate enterprises to continuously improve;
- Related industry and supporting industry performance: if an industry is to reach its peak, it must have world-class suppliers and benefit from the competition of related industries. These manufacturers and suppliers have formed an industrial "ethnic group" that can promote innovation.

1.4.1 The Blue Ocean Strategy

Staying in the competition discussion, The Blue Ocean Strategy should be mentioned. This theory states that each markets in which companies of any type operate are metaphorically seen as two parallel oceans of different colors, one red and one blue, depending on the way in which you decide to operate on the market itself. The red ocean is a hypothetical market in which company managers have been focusing for some time, which includes all existing sectors, where there is a continuous struggle between competitors to win a greater share of demand within the same sector and where there is a complete absence of innovation. In this type of market, companies have to be content with low profit margins, because the strategic approach is the traditional one, based on the defeat of the competition.

Conversely, a blue ocean is characterized by innovation. New ideas are developed through strategic moves, that is, from a set of managerial actions and decisions that lead to the birth of new products and services which, in turn, give rise to new markets. Although it may seem very difficult to leave the traditional logic and study new strategies, the turning point is not in the brilliant idea that will beat the competition, instead is to give an innovative value to something that already exists, interpreting it in a different form. It is about creating "value innovation": changing the mental approach and thus going beyond the traditional boundaries of one's own reference sector to explore new territories, looking above all at non-customers and creating new uncontaminated market spaces. In order to create a Blue Ocean it is not enough to have managers with a good critical sense and able to learn from their mistakes: managers will

have to reflect on the fact that there is certainly a completely free part of the market, with a different structure, where they can decide the rules themselves.

The six principles of the Blue Ocean Strategy:

1. Rebuilding the market boundary
2. Focusing on the overall
3. Surpassing existing needs
4. Following a reasonable strategic order
5. Overcome the organizational obstacles
6. Build strategic implementation

Red Ocean strategy	Blue Ocean strategy
Compete in an already existing market	Expand in a non-competitive market space
Take the part in the competition	Avoid competition
Compete for existing demand	Create and capture new needs
Follow the law for value and cost replacement	Break the law of value and cost replacement
According to differentiated low-cost strategic choices, integrate corporate behaviour into a system	At the same time, it pursues differentiated and low-cost, and integrates corporate behaviour into a system

Table 2 - Differences between the Red Ocean

1.5 Advantages and disadvantages

There are various advantages of niche marketing. The main benefit of niche marketing is that it allows brands to differentiate themselves, appear as a unique jurisdiction, and resonate more deeply with a definite set of customers. A brand can use niche marketing to emerge, become more relevant, achieve its growth potential, and create a stronger, longer-lasting bond with its ideal audience, rather than blend in with the many other brands that offer the same form of product or service.

Companies develop strategic benefits through targeting specific market segments based on customer peculiarities and unique customer needs, having much smaller customer base, they get to know the customer very well. This makes the company much more able to satisfy the purchaser, which, consecutively, means customer loyalty and return sales.

Niche businesses are often high margin business. It is recommended to apply relationship marketing. Customers do not mind paying a little extra because they can only get that service in that company. This makes niche marketing strategy a customer-focused or customer-oriented strategy at national markets.

It is advantageous for enterprises to carry out market research. The purpose of market research is to provide the specific market changes for the decision-making of enterprises: the acquisition of these basis depends on the collection of market information and scientific analysis method. Because niche marketing focuses on small market status, it greatly reduces the complexity of target market research; market research can be carried out in a short time, and the cost paid by enterprises for this is also modest. For example, it is easy to achieve advantages in narrow product line, single geographical distribution of target market and strong consistency of market purchase behavior. Effective analysis of these determinants of marketing is conducive to a thorough understanding of the market.

The second benefit of niche market is that there is no or little competition under that segment. Other small businesses may not know your specific niche market, and large businesses are not willing to worry about it. The company is essentially the market leader and enjoys price monopoly. Competition is often minimal because niche markets may be ignored by large businesses due to what they consider to be small potential.

The third strength of niche marketing is that it provides high barriers for entry as long as the niche is well defended. By successful specialization and focus, niche marketing prevents threats of substitute products or services. The competition between the suppliers increases. Niche entrepreneurs can charge premium prices as well as eliminate powerful channels or improve bargaining power over existing channels. Barriers based on strong relationship and dynamic capabilities are also included.

A fourth benefit is the brand image: the main advantage of using a brand image to attract a certain consumer base is the notion of intrinsic differentiation. Branding establishes an emotional connection with the consumer, who can more strongly distinguish a product in the consumer's eyes much more so than price. A firm distinction is provided by the image. It is extremely important to understand the market and location in which a company wants to sell its product. If the market is not concerned with brand, the company must find some other way to differentiate its product.

Also, the issue of developing internal dynamic capabilities as a basis for competitive advantage is important. The issue of specialization appears to be vital. Such specialization is related mainly to the product expertise and the ability to manufacture specific and differentiated products, but it can also be applied to other areas, such as customer specialization and in combination with product specialization.³⁹

There are numerous success criteria for niche marketing, such as uniqueness, high quality, relationships, commitment, dynamic capabilities, partial protection from competition, customer value and niche marketing are a viable option in a variety of settings and industries.

The reported benefits of seeking niche marketing are numerous, especially within the areas of increased profits, prices, sales, growth, market shares and competitiveness. Benefits such as value development, improved competitiveness and better security from competition are less frequently mentioned.

Further, niche marketing has been applied to a number of different industries and firms of various sizes in domestic and international contexts. It has been suggested that these

³⁹ Kjell TOFTEN and Trond HAMMERVOLL, "Strategic orientation of niche firms", *Journal of Research in Marketing and Entrepreneurship*, Vol. 12, No. 2, 2010, pp. 108-121

advantages are effective both in newly established and growing industries and in mature industries.⁴⁰

For long-term survival as a niche marketer, preparing for flexibility is fundamental. There are two broad approaches to obtain this – i.e. contingency and portfolio planning – which are not mutually exclusive.

Strategic flexibility is the ability to respond to various demands from dynamic competitive environments.⁴¹ The strategic flexibility that is necessary to deal with such turbulent environments by spreading the risk among a larger number of smaller “niche” activities.

While it offers superior reliability, a strategy of this type is not without its costs and drawbacks. A small company will face the diffusion of its already limited resources. However, even a large organization that chooses to pursue such a multi-activity portfolio approach will have relatively less resources to devote to each individual activity than any of its similarly sized, but fully specialized, competitors.

The portfolio concept is also somewhat counterintuitive in that the strategy simultaneously incorporates a high level of resource focus within individual niches and a planned process of resource diffusion between them.

There are inherent risks in choosing this approach, despite the benefits associated with niche marketing, such as an assault by a competitor who wants to be part of a lucrative niche, product cannibalizations (when a company launches a new product that “eats away” at one of its own established markets), lack of market and customer awareness, competitor attacks and aggressive responses from generalists, price pressure and temptation to go public.

Another weakness of the niche marketing strategy is the small growth potential: only a small portion of the market is going to be interested in that specific niche, so the profit margin might be limited.

Looking at the niche strategy from the point of view of the firm aiming at sustained long-range profit and growth, the important question is whether it is valid for the long range. There are two dangers to the long-range competitive advantage of niche strategy: the demand in the niche might disappear or not provide growth potential for the firm, because of a change

⁴⁰ Kjell TOFTEN and Trond HAMMERVOLL, “Niche marketing research: status and challenges”, *Marketing Intelligence and Planning*, vol. 31, No. 3, 2013, pp. 272-285

in customer preferences, or the niche market may grow and become attractive to broad-line firms and new entrants.

The case of Nike, a niche business producing athletic running shoes, demonstrates the first type of danger. From 1976 to 1983 it reached an annual growth rate of 80%, but then the running shoe market slowed down to 0% growth. In order to sustain growth, they had to diversify into new product segments like other types of athletic shoes as well as athletic clothing.
42

The story of Dell Computers exemplifies the second form of challenge for a niche firm, which arises as the niche market expands rapidly, and presents profit opportunities to new entrants and the broad-line firms. Following a price war and strong competition in the low-price PC market from new entrants and strong firms like Compaq in the early 1990s, Dell Computers, although one of the market leaders, went beyond its niche of PCs into the data processing market. Dell started to offer a catalogue of other companies' computer peripherals and software; it quickly expanded into fax machines and compact discs. The interest in the niches of broad-line companies has grown into the phenomenon of 'multi-niche' firms.

It should be noted that companies that do not face any of these risks, as long as they can meet their growth goals and new entrants and broad-line firms do not threaten their incomes, can remain in the niche until an increase of market density increases the population ecology pressures which might force them to cross over the niche boundaries.

Another risk is shifting the strength to other products. There are two reasons for this: first, the niche is too specific for the customers and the product value is not providing enough attractiveness. Second, the technology and/or trends affect the position of the products dramatically.

One of the most striking aspects of niche marketing is the lack of emphasis on contingencies for dealing with market turbulence. The majority of the recommendations are highly "single niche orientated". As they are small, and rely on a degree of isolation, niches have the capacity to be highly volatile relative to the mainstream market, and explosive niche collapse is not unknown⁴³.

⁴² Ely NOY, "Niche strategy: merging economic and marketing theories with population ecology arguments", *Journal of Strategic Marketing*, vol. 18, no. 1, February 2010, 77-86

⁴³ Ronald H. CUTHBERT, *The strategic planning process of agricultural niche marketers: a case study approach*, unpublished MSc thesis, Lethbridge, The University of Lethbridge, 1995

Therefore, market development/turbulence that may be merely an inconvenience to a major player may be lethal to a niche company. There are a number of issues with this strategy. First, it is very expensive in terms of both management effort, and actual funds to maintain a range of potential capabilities that may never actually be used, both of which may significantly impact upon the viability of the company by detracting from its core niche effort. Second, the contingency approach is by no means infallible, and consequently, carries with it a high level of residual risk. The company is only developing potential capabilities and, as a consequence, will still end up in a position where it is reacting to events.

The various ways in which events can happen against a niche marketer are summarized in Figure 4, together with some examples. As can be seen, even the most highly adapted niche marketer can be undone by such “external” developments, and unless they can react rapidly to their changing circumstances, and either find a new niche rapidly, or find a new source of sustainable competitive advantage within their existing one, they are unlikely to survive.

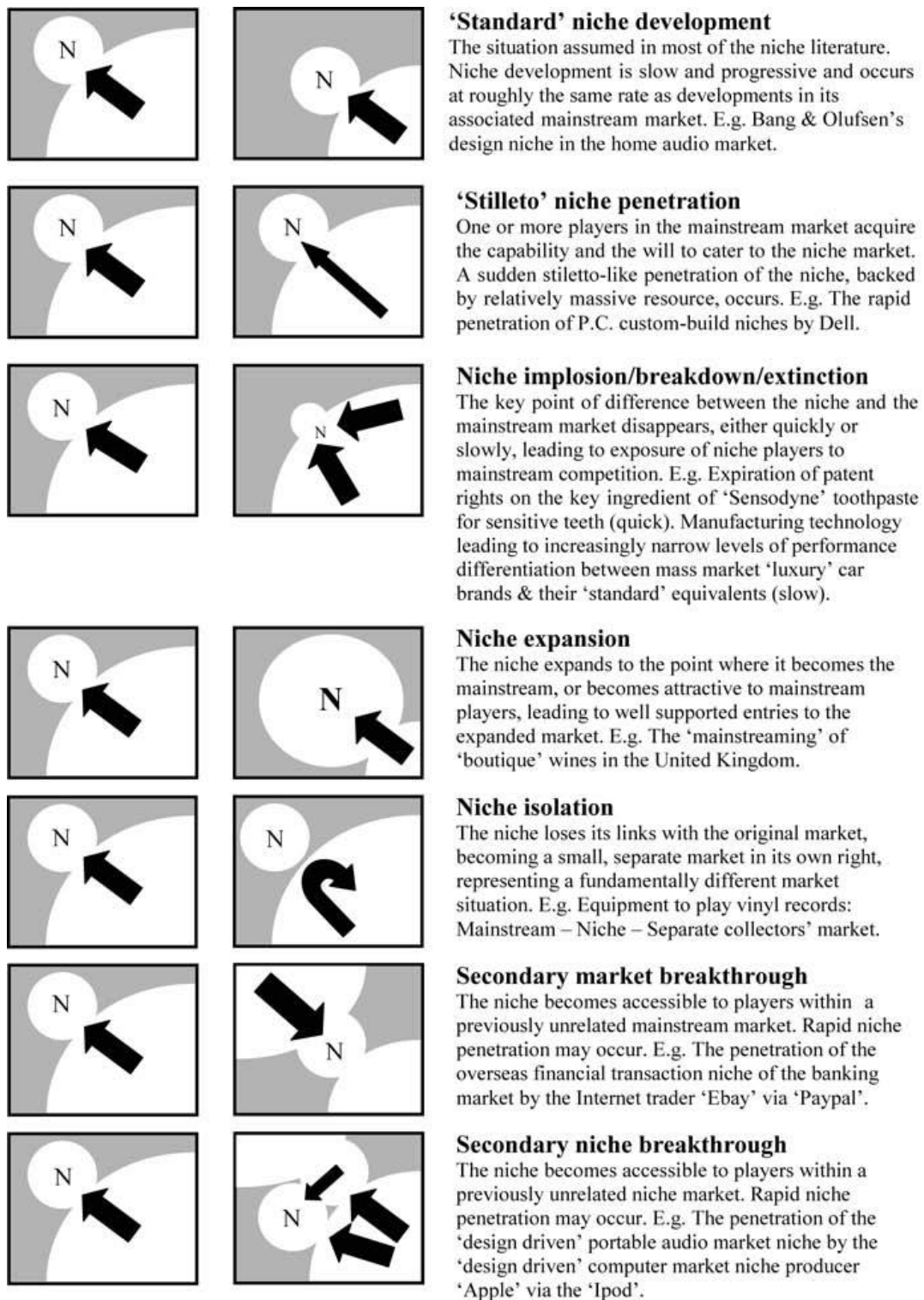


Figure 5 - Niche development and typology of niche breakdown⁴⁴

⁴⁴ Robert HAMLIN, James HENRY and Ronald CUTHBERT, "Acquiring market flexibility via niche portfolios", *European Journal of marketing*, vol. 46, No. 10, 2012

Niche strategists rarely survive one of these negative events, and the occurrence of such an event is often a condition for companies to learn that such events are possible and therefore, are worth trying to avoid.

1.6 Niche marketing versus segmentation

It is often assumed that segmentation is a start line in niche marketing. Actually, the concept of segment and therefore concept of niche are different concepts at all. The definitions are similar, and the applications appear to be similar. However, small differences can still be detected when comparing uses of the two concepts.

The market segmentation theory was introduced by the American marketing expert Wendell R. Smith in the mid 1950s, who defined it as a “more precise adjustment of product and marketing effort to consumer requirements”.

Michaelson ⁴⁵ defines niche marketing as “finding small groups of customers that can be served within a segment”.

There are a variety of influences on the purchase decisions of customers. Their needs and wants vary and not each customers will want it or will be willing to pay the same price for it. Therefore, to satisfy the consumer needs successfully, different product and service offering must be made to the diverse customer groups that typically include a market. The technique used is called market segmentation. Market segmentation can be described as the identification of people or organizations with similar features that have important implications for the determination of marketing strategy.

Thus, market segmentation involves the division of a diverse market into a number of smaller submarkets that have common features. The objective is to identify groups of potential consumers with similar demands so that they can be served effectively, while being of a sufficient size for the product or service to be supplied efficiently. Market segmentation, by grouping together customers with similar needs, provides a commercially viable method of serving these customers.

⁴⁵ Gerald A. MICHAELSON, “Niche marketing in the trenches”, *Marketing Communications*, Vol. 13, No. 6, 1988, pp. 19-24

With the development of science and technology and the development of e-commerce, target marketing occupies the mainstream of the marketing industry. Most companies are based on market research, combined with its own strengths and characteristics, it selects attractive target markets, designs and implements a marketing mix that matches the target market. The origin of market segmentation theory has caused fundamental changes in traditional marketing concepts and has had a huge impact on marketing practices. Niche marketing strategy is also an indirect result of this marketing revolution.

The reason why companies segment their markets is that there is the opportunity to enhance their profits. Many customers are willing to pay a premium for products or services that match their needs. For example, first-class air travelers regularly pay thousands of euros for long-haul flights, though the additional costs of catering for these customers is only marginally higher than that of catering for economy-class customers.

Second, businesses may examine growth possibilities and broaden their product lines by segmenting markets

Finally, in many competitive markets, companies are not able to compete across all segments effectively; by segmenting markets, companies can identify which segments they might most effectively compete in, and develop strategies suited to those segments.

According to the degree of market segmentation, a market can be deconstructed into three levels: brand segmentation, niche markets, and market elements. The market segment can be further subdivided to reach the niche level, and the same can be achieved through market parts. This will involve another idea of market segmentation. First, it shows the characteristics of the needs of a particular consumer. His/her needs are very specific and clear, and they can represent the common needs of a small group of market molecules. Second, according to certain principles, the standard of demand characteristics is generalized and expanded. The consumer group at the niche level of the market has been obtained, and further generalization has led to segmented markets. The advantage of this segmentation is that the separation between niche markets and market segments is very obvious, avoiding the disadvantage of market overlap due to the traditional top-down segmentation method.

There are several criteria for a segmentation to be successful: it must be effective, the segments identified should consist of customers whose needs are relatively homogeneous within a segment, but significantly different from those in other segments; be measurable, it must be possible to identify customers in the proposed segment, and to understand their characteristics and behavior patterns; be accessible, the company must be ready to formulate

effective marketing programs for the segments that it identifies, it must be clear what sorts of promotional campaign might work best for the segment; be actionable, the company must have the resources to exploit the opportunities identified through the segmentation scheme. Finally, it must be profitable: segments must be large enough to be profitable to serve. Very small segments may be unprofitable. ⁴⁶

The distinction between niche marketing and segmentation can be further analyzed through two approaches: the top-down and the bottom-up approaches.

Shani and Chalasani ⁴⁷ support the “nichemanship” approach: they hold a different view when differentiating between market segmentation and niche marketing. They describe market segmentation as a top-down strategy, stating that it is “the process of breaking a large market into smaller and more manageable submarkets; a process of carving out a small part of the market whose needs are not fulfilled. By specialization along market, customer, product or marketing mix lines, a company can match the unique needs”. They propose that marketers start from the needs of a few clients, gradually build up a larger consumer base, and then aggregate on the basis of similarities, with an emphasis on the individual. The top-down technique is deduction, where client segments are diversified by the companies. They go from mass markets to niche markets.

On the other hand, niche marketing is a bottom-up strategy, meaning that “the marketer starts from the needs of a few customers and gradually builds up a larger customer base”. A company must think of customers as individuals, and respond to their special needs. The bottom-up approach, is induction, where the companies start with the individual customer and build a niche strategy around it. Then, to obtain customer clusters, they look for similarities among customers, where they go from single niches to multiple niches. These companies become big by being small in small markets. ⁴⁸

⁴⁶ Tiziano VESCOVI, *International Marketing to China*, Ca' Foscari University of Venice, McGraw Hill Create, 2019

⁴⁷ Sujana CHALASANI and David SHANI, “Exploiting Niches Using Relationship Marketing”, *The Journal of Consumer Marketing*, Vol. 9 No.3, pp. 33-42

⁴⁸ Erin D. Parrish, Nancy L. Cassill and William Oxenham “Niche market strategy in the textile and apparel industry”, *Journal of Fashion Marketing and Management*, Vol. 10 No. 4, pp. 420-432

Bottoms-Up Approach & Top-Down Approach

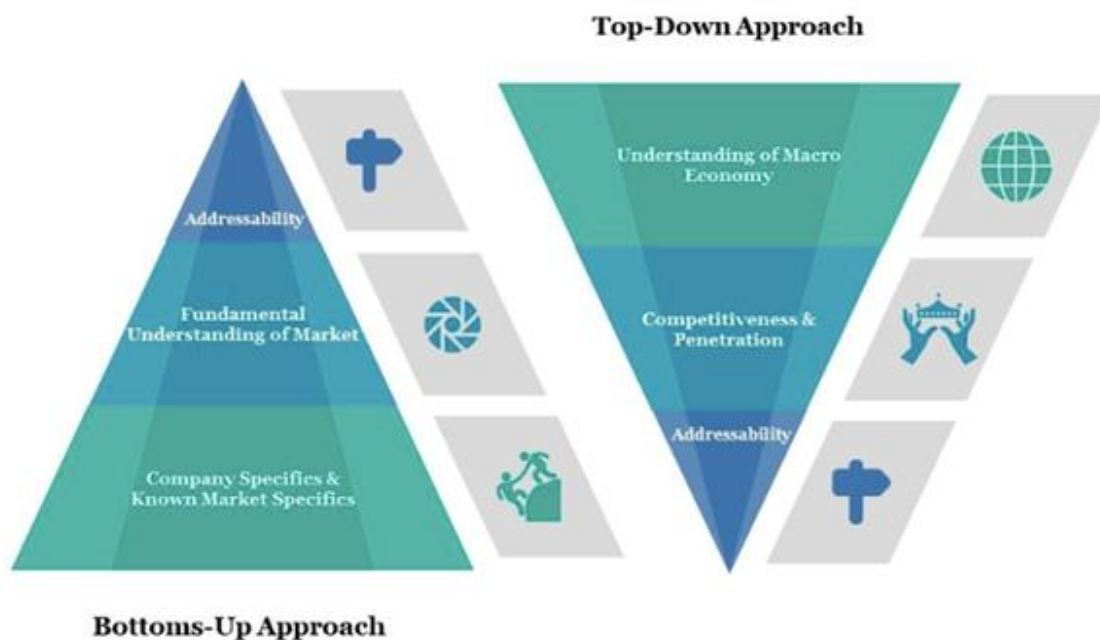


Figure 6 - represents the concept of top-down and bottom-up.⁴⁹

The bottom-up approach is in contrast to breaking up a market into smaller markets. In this respect niche marketing could also be termed as inverted or reversed segmentation. The definition that perceives niche marketing as the last or final stage of segmentation is the opposite to this view.

Another definition is proposed by Linneman and Stanton⁵⁰, they define niche marketing as the splitting of traditional markets into smaller segments and then devising separate marketing programs for each of these smaller segments, or niches.

Other observed differences are that:

- a niche is usually smaller in size compared with the size of a segment. A niche is often represented as a single niche or, more frequently, as a small segment or smaller than a segment;

⁴⁹ *Bottoms Up Approach and Top Down Approach Ppt Styles Examples*, in "Slide Team",

<https://www.slideteam.net/bottoms-up-approach-and-top-down-approach-ppt-styles-examples.html>, March 2020

⁵⁰ E. R. LINNEMAN and L. J. STANTON, *Making Niche Marketing Work*, New York, NY, McGraw-Hill, 1991

- a niche focuses on individuals or on a few customers and competitors – in a segment we focus on a so-called homogeneous group;
- a niche fulfils a unique need in contrast to a segment where the stress is on being a manageable part of the market;
- in comparison to the vast majority of companies targeting segments, niche companies tend to concentrate more frequently on a specific niche and on creating defensive barriers around this niche. This may possibly be clarified in terms of business size, where niche firms appear to be smaller than firms that target segments.

1.7 Niche marketing versus mass marketing

As a final aspect of the analysis of niche markets, a comparison between mass marketing and niche marketing can be drawn. Most managers were taught that mass production and mass marketing were the foremost advanced and efficient methods to supply and market products. In today's competitive world there still is a debate about the desirability of mass marketing.

In niche marketing a corporation focuses on a specific niche rather than a whole market. Mass marketing is the opposite. This option involves selling the same product to masses of consumer. In both strategies, a product can be initially developed by the company and then marketed to the final buyer, i.e. giving the customer what they did not know they needed, also referred to as push marketing. It can also be created based on the customer needs and developing or enhancing a product in order to fill this void, also known as pull marketing.

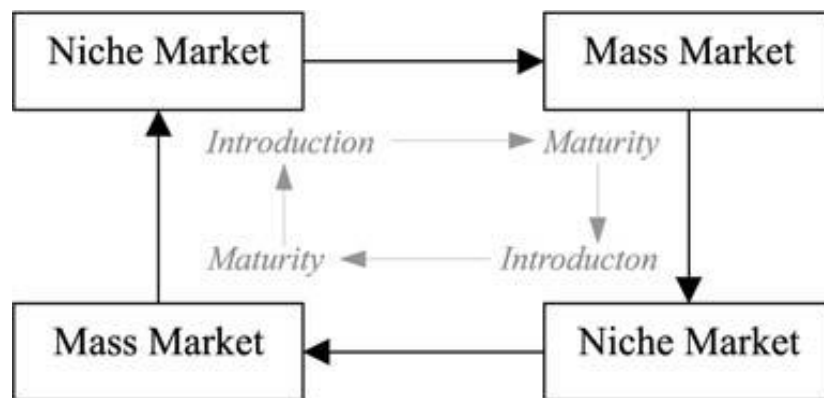
In mass marketing – undifferentiated marketing – a company aims to attract buyers with one product with one marketing mix. Within the product-oriented era of selling, the so-called mass marketing strategy was pursued by many companies. Coca-Cola is an example: originally it was only available in one flavor and in one type of bottle. Nowadays, it has adapted from what once was viewed as a single mass market towards a multitude of smaller markets.

Mass marketing does still exist, particularly with “undifferentiated” items such as sugar, salt and milk. But even these are becoming more and more differentiated. According to Porter⁵¹, by making units of a fairly standardized product and underpricing everybody else,

⁵¹ Michael PORTER, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York, NY, Simon & Schuster Inc., 2004

entrepreneurs can attain overall cost leadership; this is one of the most important arguments in favor of undifferentiated marketing.

Interestingly, niche marketers often evolve to mass marketers and mass marketers return to be niche marketers, proving the gigantic growth and profit potential in following a niche market strategy. Most businesses continue to start out as niche marketers and evolve into mainstream marketers as their product life cycles tend to progress into maturity and once maturity is achieved and saturation begins, innovation occurs. As the product reaches maturity and the market becomes saturated, innovation happens and the former mainstream markets begin to return to niche markets. An illustration of this concept is shown in Figure 6.



Source: The authors

Figure 7 - Evolution cycle of niche markets and mass markets

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For examples, when Apple launched the PC in the early 1980s, it did not expect it to become a mass-market item. Some niches have ultimately arisen from the mass market for PCs, such as the specialist market for architects and designers.⁵³ The niche audience may constitute a low percentage of the market population, but these consumers are eager buyers who would not mind employ extra money to get as close a solution to their consumption needs as possible.

⁵² Erin Dodd PARRISH, “Opportunities in the international textile and apparel marketplace for niche markets”, *Journal of Fashion Marketing and Management*, vol. 8, No. 1, 2004, pp. 41-57

⁵³ *Niche market*, in “The Economist”, Oct 27th 2009, <https://www.economist.com/news/2009/10/27/niche-market>, June, 2020

A reason for this phenomenon is also that launching a product into a niche market is far cheaper than launching a mass-market product. Potential customers are easier to identify and to target.

Verhage *et al.*⁵⁴ state three arguments in favor of the mass marketing strategy:

- Via economies of scale and experience curve results, economic benefits can be obtained;
- Mechanism for strategic price;
- Competitive – if the economic and strategic argument has been achieved, the company can be competitive, through selling the “best” product at the “best” possible price.

When introducing a mass market product, three stages will follow one another.

The first stage is “New product”. During this stage, the product is introduced onto the market, and producers are concerned with a number of factors:

- the product may be unstandardized for a while;
- input costs might be high;
- flexibility (the ability to change the product) and the need for quick and effective communication between the producer, the customer and the suppliers.⁵⁵

The second stage is “Maturing product”. During this stage certain occurrences will have taken place:

- standardization;
- a decline in the need for flexibility;
- an increase in the concern about production costs;
- an increase in export;
- an increase in competition; and

⁵⁴ Bronislaw J. VERHAGE, Lee DAHRINGER, and Edward W. CUNDIFF, “Will a Global Marketing Strategy Work? An Energy Conservation Perspective”, *Journal of the Academy of Marketing Science*, Vol. 17, No.2, 1989, pp. 129-36

⁵⁵ Raymond VERNON, “International investment and international trade in the product life cycle”, *The Quarterly Journal of Economics*, Vol. 80 No. 2, 1966, pp. 190-207.

- an increase in demand.

The final stage is “Standardized product”. During this stage:

- less-developed countries may offer competitive advantages as a production location;
- the product has an easily accessible international market; and
- price becomes the basis for competition.

An overall comparison in this field is reported in the table below, in order to identify the differences between mass marketing and niche marketing. This table shows clearly the typical characteristics of niche marketing, such as the absence of competition and the focus on un - served minor needs of consumers.

MASS MARKETING	NICHE MARKETING
Production based view	Modern marketing view
High amount of production	High profit margin
Standardized product	Specialized product
High competition	Less or no competition
Target: whole market	Target: a small unsatisfied group

Table 3 - Differences between mass marketing and niche marketing

One of the most important differences among the table reported above, in favor of niche marketing, is that in contrast to mass marketing, it assures “greater profits”.

The difference between mass marketing and niche marketing can also be characterized by differences in organizations. It is possible to describe a mass marketing business as being centrally led and hierarchical, which can contribute to inflexibility. Niche marketing organizations can be described as being decentralized, with many strategic business units if the company is large. If the business is small, it can be described as being centered on one part of the market. This requires anticipative decision making which implies responsiveness and flexibility.

Although mass marketing can give advantages, it may be argued that niche marketing is better suited to deal with the emerging and rapidly evolving mini markets.⁵⁶

A connection between a large niche marketer and a mass marketer that can be notified, is that they both control a large market; nevertheless, the niche marketer controls linked niche markets as opposed to just one large market.

In mass customization, a mix of mass marketing and niche marketing strategy can be found. For marketers, technological advances such as CAD/CAM have made it possible to tailor their products for individual buyers. Some car manufacturers, for example, such as BMW and GM, offer their customers, under certain limits, the opportunity to custom design their own cars.

Choosing niche products over goods from the mainstream market is primarily affected by differentiation developments. Moreover, consumers use niche products to strengthen their role as opinion leaders. Choice of mass market products, on the other hand, is influenced by assimilation tendencies. Status-seeking customers are more likely to select a mass market choice over niche products, in contrast to traditional expectations.

In general, consumers are assumed to prefer a niche product if it satisfies their need better, and at an acceptable price level, than mainstream products. However, as niche customers make very distinct purchase decisions in a product domain, it can be assumed that they differ from respective mass market customers⁵⁷.

⁵⁶ Bronislaw J. VERHAGE, Lee DAHRINGER and Edward W. CUNDIFF, "Will a Global Marketing Strategy Work? An Energy Conservation Perspective", *Journal of the Academy of Marketing Science*, Vol. 17, No.2, 1989, pp. 129-36

⁵⁷ Jooseop LIM, Imran S. CURRIM and Rick L. ANDREWS, "Consumer heterogeneity in the longer-term effects of price promotions", *International Journal of Research in Marketing*, Vol. 22 No. 4, 2005, pp. 441-457

CHAPTER 2

Niche marketing strategies

2.1 International niche marketing strategies

Facing the era of consumer sovereignty characterized by the individual needs of consumers and the competitive pressure of the global buyer market, multiple levels niche marketing strategies need to be rationally considered. Fin qua

Niche marketing has been defined as a marketing strategy that uses product differentiation to appeal to a focused group of customers.⁵⁸ Product differentiation refers to subtle differences in quality, appearance, packaging, brand, service, etc. of the same product.

Niche marketing is a focused marketing strategy. Many companies are turning to this marketing technique. Niche strategy refers to the competitive strategy adopted by enterprises to occupy the highly focused markets through specialized operations based on their own unique resource advantages. The aim is to target a specific market segment, which is created by identifying what a customer wants, trying to deliver a better solution to a problem which was not presented by other firms, focusing all marketing efforts on a specific product or service.⁵⁹ It not only reflects customer-oriented marketing ideas, but also reflects competitive-oriented marketing ideas. Therefore, the effectiveness of niche marketing strategies is very strong, especially in enterprises.

Strategy does not apply everywhere, a strategy has its main scope of application. This scope of application can be defined based on a variety of perspectives, such as the size and strength of enterprises, the industrial characteristics of products, technical, market, demand, and environmental characteristics.⁶⁰

⁵⁸ Kjell TOFTEN, Trond HAMMERVOLL, "Niche firms and marketing strategy", *European Journal of Marketing*, vol. 43, No. 11/12, 2009, pp. 1378-1391

⁵⁹ *Definition of niche marketing*, in "The Economic Times",
<https://economictimes.indiatimes.com/definition/niche-marketing> , June, 2020

⁶⁰ Ma Jianjun, 马建军 *Jiě mǎ lì jī yíng xiāo zhàn lüè 解码利基营销战略 (Decoding niche marketing strategy)*, Xuzhou 221009, Jiangsu, School of Management, Xuzhou Normal University

There are four types of niche strategies applicable to new types of market segments: the first category is the lower value of operating costs due to a tailored value chain; the second is what makes target agglomeration and a niche market feasible because the market has developed enough to overcome the fixed costs of servicing it; the third category is the use of associations with other industries to overcome the cost of serving this niche market; fourth, if a global strategy is adopted and the large-capacity of multiple countries is used to overcome economies of scale, then it is feasible to accumulate targets in this niche market.

A niche strategy can be selected under the following conditions:

- If the business involved has the potential to tackle a niche in a particular way, better than others and with a different strategy,
- If the company is able to create a considerable amount of goodwill in a relatively short period, in order to deter potential competitors.

A niche strategy has also been labelled as a single marketing strategy which can be employed for the following reasons:

- to prevent competition/confrontation with larger rivals and to devote its resources to serving a distinctive market;
- to develop an opportunity;
- to endure. ⁶¹

Developing an effective niche strategy, including achieving high market share in a targeted segment, can lead to high performance, save time and expenses, and reduce management complexity and duplication of effort. A firm can be distinguished from the competition by providing a particular service to the market – such as customer service, fast returns or shortened lead times –. By offering a group of consumers what they perceive as value is important in the success of a niche marketing strategy. Again, given that perceptions of value differ among consumer groups, a company must understand the purchaser well.

Niche marketing is commonly put forward by theorists and practitioners alike as a possible strategy for success for small producers. By differentiating products and targeting

⁶¹ Tevfik DALGIC, "Principles of niche marketing: the guerrillas against the gorillas", *Journal of Segmentation in Marketing*, vol. 2, 1998

specific consumer groups, small producers can take advantage of market opportunities that larger companies may be unwilling or unable to satisfy.

For example, the European Council Regulation 2081/92 offers smaller producers the opportunity to specialize their products on the basis of their place of origin or method of production.⁶²

According to Porter's⁶³ strategic approaches, concentrating on specific requirements of parts of the market rather than targeting the entire market (i.e. following a niche marketing strategy) can be the source of a competitive advantage. A strategy based on the niche idea has been synonymous with competitive advantage for more than a decade. In practice, this approach has been shown to include specializing in unique products (also services) and/or unique marketing behaviors.

The economic bodies most affected by the niche marketing strategy are the SMEs. Small and medium-sized enterprises (SMEs) are often referred to as the backbone of the European economy, providing valuable sources of employment and economic growth prospects.⁶⁴

Small and medium enterprises face many challenges in the world today, competition is one of the main challenges.⁶⁵ The change of management thought of enterprises, especially small and medium-sized enterprises, is the subjective reason of the prevalence of niche marketing. Enterprises no longer despise small products and small markets. On the contrary, as long as they are commensurate with their own capabilities, they are willing to work hard and spare no effort.

In fact, depending on the niche market, some small and medium-sized enterprises focus on the phenomenon of high-speed growth. The characteristics of high profits, fast growth and strong core competitiveness of niche market, have already attracted the attention of many large

⁶² Commission of the European Communities Council, *Commission of the European Communities Council Regulation (EEC)*, No. 2081/92, 14 July 1992

⁶³ Michael PORTER, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York, NY, Simon & Schuster Inc., 2004

⁶⁴ Qiang Zhang 强张, *Zhōngxiǎo qǐyè de lì jī shìchǎng yíngxiāo cèlüè 中小企业的利基市场营销策略* (Niche marketing strategies for SMEs), in "www.cnki.net", March 2013, <http://gb.oversea.cnki.net/KCMS/detail/detail.aspx?filename=QYGG201303035&dbcode=CJFD&dbname=CJFD2013>, September, 2020

⁶⁵ Fazal AKBAR, Abdul R. B. OMAR and Fazli WADOOD, "Niche marketing strategy and firm success: review on SMEs in peninsular Malaysia", *International Journal of Research and Review*, 2(11), 2015, pp. 697-702

companies that previously despised this typology of market. More and more big companies are competing for small business units to serve all kinds of niche markets, which is a picture of the market today.

It has been argued that this strategy is a good approach because it harnesses the ability of a SME to develop strategic advantage on the basis of flexibility and specialization ⁶⁶. Small firms cannot target a low-cost strategy in large market commodities, but rather need to focus on product differentiation or a niche strategy. The propensity to be involved with a specialized product requiring specialized assets targeted for a narrow group of consumers tends to increase for smaller firms. ⁶⁷ Small and medium-sized businesses are often better suited than big corporations with high overhead, bureaucratic slowness, and inflexibility for global expansion

Niche marketing is generally considered to be only for small firms. It is interesting to know, however, that the majority of the successful medium-sized companies are currently niche marketers. There are some common aspects observed among them. These firms are:

- offering high value;
- charging a premium price;
- creating new experience curves and shaping a firm corporate culture and vision. ⁶⁸

This gives rise to five differentiation areas based on the ability of a company to set itself apart:

- product or service;
- customer service;
- channel of distribution;
- communication;
- price.

It is stated that differentiation in only one of these areas is insufficient, but achieving distinction in all five areas is practically impossible. The key is to find the right combination of

⁶⁶ W. K. J. SATCHELL and D. N. MARRIOTT, "European export strategies of UK small service firms", *Journal of Small Business and Enterprise Development*, 3(2), 63-70., 1996

⁶⁷ Masataka FUJITA, *The Transnational Activities of Small and Medium-Sized Enterprises*, Dordrecht, the Netherlands, Kluwer Academic Publishers, 1998

⁶⁸ Donald K. CLIFFORD and Richard E. KAVANAGH, *The Winning Performance: How America's Hi-Growth Midsized Companies Succeed*, Bantam Books, New York, NY, 1985

areas for the niche. The chosen specialization and corresponding strategy depend on a clear vision of the niche, its consumers and the resources of the company, bearing in mind the requirements of protecting the niche from competitors in the future.

2.1.1 Development of niche marketing tactics

Under different circumstances and marketing strategies, different enterprises use niche marketing with different emphasis and implementation steps.

Tactics are deployed via the producer's controllable variables or marketing mix, each element of which relates to the main dimension of a consumer's buying decision. The mix should be based on the combination of strategic specialisms identified in the previous phase, with the result of the best mix of all the variables being successfully implemented. Although accurate tailoring of all the variables is necessary to implement a strategy, most of the time pairs of elements are emphasized, reflecting the producer's chosen areas of strategic specialization.

Niche companies should establish a strong differentiation position and must maintain their own distinctiveness. Niche companies can maintain and increase this advantage in four aspects, also named the marketing mix.

The niche strategy marketing mix comprises product, price, place and promotion, also named the 4Ps.

Product strategy: niche marketing strategy consists of finding a unique niche market, develop unique or specialized products to meet the special customer needs, continuously carrying out technological innovation, and developing new products or functions. A necessary but not sufficient premise for the company's market success is in fact to have an offer that is constantly in tune with the needs of consumers. When this does not happen, the company has no chance of lasting success whatever the combination of the other elements of the marketing mix. The central problem of product management is that it is a dynamic element of the marketing mix, depending on changes in consumer needs, on the differences induced by competition between companies, on the new opportunities offered by technology and on other factors related to the relationship of product and market, such as changes in the distribution structure. Fundamental activity of product marketing management is to continuously evaluate its

performance in the market, through quantitative research, and to consider the correspondence of its attributes with the needs of potential consumers, through psychological and motivational research.

Price strategy: The price variable relates to the decisions and actions associated with the definition of price objectives and policies and the determination of product prices (pricing). In establishing the price, the company must still take into account some factors that limit the possibility of freely deciding the level. The total costs of production or purchase (for the commercial enterprise) represent the lower limit; while the upper limit is given by the elasticity of the demand curve. The practical difficulty arises from the fact that the company does not know the demand curve and therefore is unable to determine in advance the most convenient upper limit for the objective pursued. It can only check *ex post* if the price allows those sales to possibly correct it as it gains marketing experience on that product. The choice of a higher price allows to produce a greater unit contribution margin, difference between revenue and variable cost, but limits the quantity sold; therefore higher prices do not necessarily provide greater total margins.

Place strategy: distribution focuses on the decisions and actions that go into making products available to customers. Commercial distribution, in particular, responds to the need to structure the distribution network: it typically concerns decisions relating the choice of distribution channels, the type of commercial intermediaries and the number of intermediation levels to be placed between the producer and the consumer. The choice of the distribution channel or mix of channels to which the company entrusts the distribution of its products, depends on the characteristics of the products offered and those of potential customers, as well as on the company's marketing objectives. Each type of distribution allows for different performances: the direct channel (between producer and final consumer) allows a very high level of control but implies considerable fixed costs, it is risky and difficult to start; the long channel (characterized by the presence of several commercial intermediaries), on the other hand, requires few investments and risks, is easy to start but does not allow any control over distribution; the long channel, in general, is associated with a pull strategy capable of conditioning the offer and, consequently, the commercial intermediaries. Companies that think of the widest possible distribution (intensive distribution), use several intermediaries at the same time: wholesalers, retailers and even direct sales trying to obtain synergistic effects.

Promotion strategy: it reached full development only in the 1980s, when the promotion market was professionalizing (following the emergence of sales promotion agencies) and passed from a tactical-emergency use to a strategic one. Until then, and still in some less developed companies, promotion has been considered as a tactical, unscheduled tool that is proposed to "empty the warehouse" or to respond to aggressive actions by competitors. Only since the 1990s, following promotional actions carried out with considerable skill and success, has the judgment on this negative attitude of promotion been corrected. The promotion was thus fully recognized in all its communicative value: when well realized, it helps to strengthen the brand image and to push the consumer to loyalty. The added benefit, depending on its particular nature, communicates specific messages and values connected to the product to the consumer.

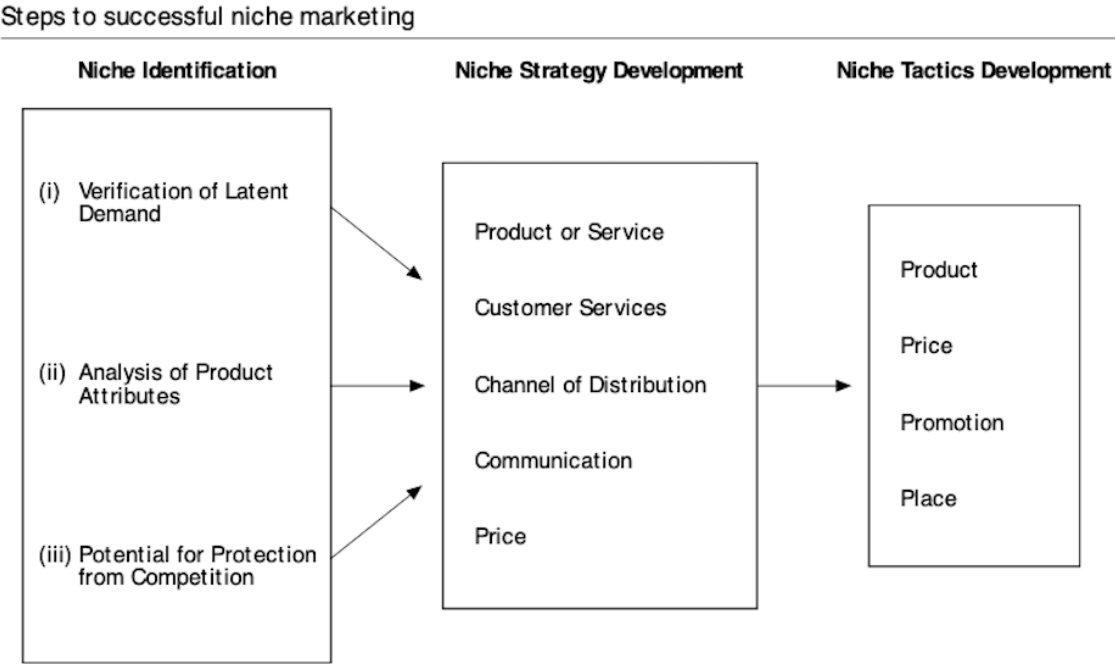


Figure 8 - demonstrates that the development of a niche strategy and formulation of tactics depend upon the initial stage of niche identification, where the precise nature of the niche market is analyzed ⁶⁹

⁶⁹ Vasco TAMAGNIN, Angela TREGGAR, *An assessment of niche marketing opportunities in the delicatessen meat sector*, in "British Food Journal", 100/5, 1998, pp. 228-235

2.1.2 Resonance marketing

Resonance marketing is one such method for businesses that aim to succeed in today's highly competitive marketplace is. Resonance marketing, a term coined by Clemons and Spitler⁷⁰, is about making products that are absolutely perfect for a small number of consumers. The goal is not to create products that many consumers like but, rather, to use hyper-differentiation to make products that a smaller number of consumers love. Resonance marketing is about offering customers exactly what they want instead of making products that are merely acceptable or satisfactory. It is achieved through efficient marketing and advertising, that reach the target audience, influence their opinion and their buying behavior. As opposed to being merely satisfactory or acceptable, hyper-differentiated products are precisely on target. Creating such products requires micro-niches to be targeted.

In the past, it was difficult or impossible to get distribution for products targeted to micro-niches. Shops have only a limited amount of shelf space. Products with market shares of 0.2% are probably not going to get any shelf space at all. Therefore, the aim was to produce goods that cater to a mass market and therefore maintain a reasonable amount of shelf space. In order to generate sufficient revenues to pay for the advertising, a large market share was also necessary, as products appealing to a large target market require a great deal of advertising. These advertisements use expensive media such as network television and major national magazines.

Marketers are already familiar with niche marketing, most often, marketers do this by dividing one market segment into several. This is different from resonance marketing. Resonance marketing implies niche marketing; but niche marketing does not mean resonance marketing. In addition, many textbooks suggest that niche marketing, which they feel is synonymous with concentrated marketing, is a strategy used by smaller firms attempting to compete with larger firms with greater resources. Resonance marketing, on the other hand, is a tactic for any firm. Indeed, in order to succeed in the global economy, large and small companies in many industries may need a tool such as resonance marketing .

Hyper-differentiated goods are so unique and special that there is virtually no competition for them. The price purchasers pay for having a hyper-differentiated on target

⁷⁰ E. K. CLEMONS and R. SPITLER, "The new language of consumer behavior", *Financial Times*, October 7, 2004, pp. 4-5

product that appeals to a micro-niche is that a lot of consumers will hate it. This is why resonance marketing requires a special kind of marketing research. Selecting a target market using hyper-differentiation requires research. Three ways of hyper-differentiating a product are by cause marketing, green marketing and multicultural marketing.

Cause Marketing: young consumers, especially those who are under 30, are very interested in purchasing products that are helping to make this a better world. Many traditional businesses raise charity money; one major reason is that cause marketing can help a company improve its image ⁷¹. To use cause marketing, a corporation needs to conduct research to find a charity that is of interest to its target market and that suits its profile. What the company is looking for is a charity that resonates with the target market.

Closely related to cause marketing is green marketing. Economists note that the green market is growing very rapidly. The image of a company can be affected by its environmental performance. Consumers are willing to pay premiums for products that are good for the environment, and at the same time, of high quality.

Multicultural marketing: there are a large number of groups that are being ignored by marketers. Multicultural marketing is about targeting, communicating, and using differentiated marketing strategies to diverse cultures, including ethnic groups, religious groups, nationalities, people living in a particular geographic region, or groups that share common beliefs, values, attitudes, or a way of life.

2.1.3 Pricing and promoting the niche products

Often a niche product can demand a higher price point because it suits the consumers' needs better than the competition, but it must be competitive for that price point. A business must consider what the consumer is willing to pay.

One advantage of niche marketing is that since the product is hyper-differentiated (very different from other brands and loved by customers), a higher price can be charged for it. In the case of perfect rivalry, where all brands are seen as similar (homogeneous product), no firm can charge more for its product. However, once consumers believe that products are

⁷¹ P. Rajan VARADARAJAN and Anil MENON, "Cause-related marketing: A coalignment of marketing strategy and corporate philanthropy." *Journal of Marketing*, Vol. 52, No. 3, 1988, pp. 58-74

heterogeneous, the firm moves from perfect competition to monopolistic competition and the firm can charge more for the product.

Promoting a niche product

A company must, from the product point of view, offer a good that is uniquely different from the competition, which appeals to a select segment of the market. This can be done by offering an innovative, technologically advanced product or a “value” product. Whichever type complements the core competencies of a business, it must meet the consumer’s wants and/or needs, if the strategy is to be effective.

Product orientation, which also is labelled technological or innovation orientation, holds that customers will favor those products that offer most quality, performance or innovative features. It is associated with investments in technological leadership and with high-quality products or processes. As a result, managers in product-oriented companies concentrate on making and improving superior products, and this process can be described as an intensive and ongoing effort to develop new products. This strategic orientation assumes that customers are primarily interested in the product itself and buy it on the basis of its quality. The focus on product quality leads to the development of high-quality new products that subsequently renew and invigorate customer markets. A combined product offering, including combinations of goods, services, guidance, modifications and logistics, requires the understanding of product quality entails the combined product offering.

Normally, hyper-differentiated products cannot usually rely on traditional methods of mass advertising. Buss marketing is the latest kind of promotion that must be used. As it is often called, buzz marketing or viral marketing, relies on getting customers to “talk” about a product. Word-of-mouth campaigns rely on conversations among consumers. The goal is to create an enormous amount of word-of-mouth for the product. People involved in buzz marketing include those that talk to friends (“connectors”) as well as experts (“mavens”).

It takes longer to develop these campaigns, but the returns can be incredibly high.

Also the Internet has become a very significant advertising medium. About 14% of media time is spent on the Internet. The Internet is used by a large number of consumers to search for information before buying a product. Google has become a major advertising vehicle for advertising. Google uses a sophisticated mathematical model (factors considered include gender, location, time of day, etc.) to adjust the ads to the consumer and to encourage clicking on the advertisement. The goal is to connect the consumer with the advertisement that is most relevant to him/her.

Another technique to promote niche products is the targeted collateral campaign, which consists of consistent brand exposure to the targeted niche consumers. An example is any radio station that plays a niche type of music (classical or country, for example), that appeals to a certain audience will employ targeted collateral campaigns.⁷²

To summarize, the techniques to promote hyper-differentiated products that appeal to micro-niches are very different from that of traditional products. The Internet will have to be used and the aim will be to generate a buzz about the product, one so strong that will minimize the required expenses on conventional ads. This does not mean that it will completely remove the need for advertising. In fact, it may be necessary to use many kinds of promotions to get the word out about the product.⁷³

2.1.4 Reasons for implementing a niche marketing strategy

The main significance of implementing a niche strategy is that companies with a lower share in the market can flexibly pick up the niche and pinpoint it, thereby achieving high profits. There are many explanations for a niche market strategy to be implemented; however, most come down to profit.

There are other reasons why companies adopt a niche market strategy, besides earnings. By focusing on the customer, the firm is better able to respond faster to demand changes. This can result in customer retention. The smaller markets also mean that far fewer competitors will exist, especially large competitors.⁷⁴

Other reasons that bring companies to implement the niche strategy are to find the market segments that are not found by large enterprises, or that large enterprises do not want to

⁷³ Hershey H. FRIEDMAN, Tomas LOPEZ-PUMAREJO, Linda WEISER FRIEDMAN, "A new kind of marketing. Creating micro-niches using resonance marketing", *Journal of Internet Commerce*, vol. 6 (1), 2007

⁷⁴ Erin D. PARRISH, Nany L. CASSILL and William OXENHAM, "Niche market strategy in the textile and apparel industry", *Journal of Fashion Marketing and Management*, October 2006, Vol. 10, No. 4, pp. 420-432

focus on; avoid most of the threats of large enterprises, quickly enhance their strength and stabilize their position; when the time is right, fight with large enterprises.

A niche marketer that does not keep in consideration the wider market, and that does not seek to develop some degree of strategic flexibility via contingency plans for the more likely negative, externally located developments within their niche will sooner or later find themselves in trouble.

Managers have two possibilities to introduce strategic flexibility into the niche marketing company:

- 1) Systematic contingency planning. The company deeply studies the environment beyond its niche for threats and opportunities, and develops potential capabilities that will give it the flexibility to deal with these threats and opportunities. This process of market planning also has to be linked to a series of financial plans that give the company the financial flexibility to rapidly turn potential capability into actual capability. The advantage of this strategy is that the residual risk associated with developing a potential capability into an actual capability in a hurry is eliminated.
- 2) Portfolio development. This strategy consists in not investing all of the resources into one project, but in spreading the risk and increase the stability by investing in a “portfolio” of investments. A portfolio of niches has the same effect in niche marketing. A portfolio strategy allows the niche marketer to spread their risk, and to increase their flexibility by developing a large portfolio of niches. A company employing a niche portfolio strategy can react in a much more flexible manner to major negative developments. As long as the portfolio is reasonably diversified, then the negative development is likely to affect only that niche. The income derived from other niches in the company’s portfolio gives the time to decide whether the position within the niche is salvageable. The niche portfolio has to be carefully constructed, in order to offer maximum diversity, strategic flexibility and reduction of risk. ⁷⁵

Other ways to implement a niche strategy are :

- Specialization of the end user – companies can specialize in serving a certain type of end user, for example focusing the advertising in a specific area;

⁷⁵ Robert HAMLIN, James HENRY, Ron CUTHBERT, “Acquiring market flexibility via niches portfolios”, *European Journal of Marketing*, vol. 46, No. 10, 2012, pp. 1302-1319

- Vertical specialization – companies can specialize in serving certain vertical levels in the production and distribution cycle, for example deciding to produce domestically with a low-cost leading edge;
- Specialization of small customers – any large companies follow the 80:20 rule, focusing 80% of their energy to meet the 20% of customers, for example producing a product which is ideal just for college students;
- Special customers specialization – a company can sell its products exclusively to one or a few major customers;
- Specialization of products – the company only concentrates on one product;
- Specialization in processing – the company produces for ordering customers only;
- Professionalization of services – the company provides the public with one or a few services not available to other companies. For example a bank can take a different approach from the others, accepting customers to apply for a soft loan by phone;
- Specialization of sales channels – these companies serve only one type of sales channel, for example a soft drink company can decide to provide its products only to the gas stations.⁷⁶

The fundamental reason why the implementation of a niche strategy can bring huge benefits to enterprises is that the companies in the niche market have in fact fully understood the target customer group, so they can better meet consumer needs than other companies.

In addition, niche market players can collect more profits based on the added value they provide.

⁷⁶ Porter KOTLER, “From Mass Marketing to Mass Customization”, *Planning Review*, September/ October 1991, pp. 11-47

2.2 Chinese niche marketing strategies

In the Chinese market, resources are limited. According to the market globalization, Chinese enterprises are less organized than multinational companies, in terms of working force, material, finance, technicisms, productivity, sales, branding management and marketing resources.

On the other hand, in the international market, the brutal competitive environment forces companies to concentrate their use of resources in order to survive. While Chinese companies are unable to compete directly with multinational companies, they can focus the resources in multinational companies that have less time to take care of smaller consumer segments.

Niche strategy is a magic weapon for companies to change from small to large. Many small and medium-sized enterprises in China usually study the niche to find market gaps and opportunities.⁷⁷

2000/2001 was the "big inflection point" in the strategic environment of Chinese companies, that is, before and after, the growth environment of Chinese companies had changed substantially. This change objectively requires Chinese companies to change their thinking mode.

At the end of 1997, the end of the shortage economy has changed the growth environment of Chinese enterprises, and the entry into the WTO (December 2001) has changed the growth environment: 1) intensified competition and closer to the level of international market competition; 2) the internationalized Chinese market on average, Chinese companies are in a weak position.

This new environmental condition will exist for at least 15-20 years. In this new environment, Chinese companies must change their strategic thinking.

In the 1980s and 1990s, the strategic choices made by Chinese companies based on natural growth were dominated by diversification strategies. In the new period, the leading strategy for the growth of Chinese enterprises should be refocusing and specialization. Large companies is mainly refocusing and SMEs are specializing.

⁷⁷ Isil HEZAR, Tevfik DALGIC, Steven PHELAN, Gary KNIGHT, "Principles of global niche marketing strategies: an early conceptual framework", *Handbook of Niche Marketing: Principles and Practice*, New York, NY, Best Business Books, 2006, pp. 25-63

In the new environment, Chinese companies must change their mindset in terms of guiding ideology, strategic choices, and development fulcrum.⁷⁸

Since China's entry into the WTO, China is facing increasingly fierce international competition. If companies want to expand their business, avoid the Red Sea Ocean as much as possible, and obtain more business growth points with higher returns, they need to choose their own niche markets and build their own niche products.

From a global perspective, Chinese companies have two distinct characteristics: one is the “latecomer”, the other is the “weak”. Latecomers refer to the fact that in the process of global industry evolution, Chinese companies are not the pioneers or first movers of the industry. When Chinese companies started to be in the industry, many companies in developed countries were already operating in that sector. This is determined by the fact that modern global industries usually originate in developed countries. Of course, there are very few exceptional industries, such as Chinese medicine. However, even in the traditional Chinese medicine industry, in a modern sense, it is difficult for Chinese companies to be called pioneers.

The weaker refers to the comparison of the scale and strength of global enterprises. The vast majority of Chinese enterprises are small and medium-sized enterprises (mainly in terms of size). Compared with non-family enterprises (mainly managerial enterprises), the advantages of family businesses are: long-term orientation, streamlined management, flexible response, emphasis on humanity, and sustainability of leadership. The vast majority of Chinese companies are weak (mainly in terms of strength / competition), which is manifested in market position, brand influence, and ability to make rules.

The characteristics of late development of Chinese enterprises objectively require a strategy of weakness as a starting point. Only strategies that meet the characteristics of weakness are applicable strategies for Chinese enterprises. Chinese companies cannot learn from companies such as GE Appliances in the United States, because they are first movers. Unfortunately, in the global strategic theory, there are few strategic theories and methods for weaker people as starting points. How to carry out strategic theoretical innovation in

⁷⁸ Yinbin KE, 银斌柯, *Lì jī zhàn lüè: Zhōngguó qǐ yè de shì yòng zhàn lüè 利基战略：中国企业的适用战略 (Niche Strategy: Applicable Strategy for Chinese Enterprises)*, in “Baidu”, 2012, https://baike.baidu.com/reference/4447097/d665kep_S3Jf-q2tvjDexThB9yAfBt02U5Vod91g0kN3H0hppjuh_0PvAngc8gf3XNp5H2ypKJFGKdkf9JtMVLi8E4emytBinKVTg9aUYk9O5inbrgBEHt5EXY4w, February 20, 2020

conjunction with the actual situation of Chinese enterprises has become an important task for Chinese enterprise strategy researchers and practitioners.⁷⁹

For current Chinese entrepreneurs, especially small and medium-sized enterprises, niche marketing strategies are more a fundamental and growing way for companies to survive. Most of the international niche marketing strategies can be applied to the Chinese market. In the following section, the strategies particularly adopted in China are going to be analyzed.

2.2.1 Branding

Branding is one of the most important strategies for Chinese companies.

China is an enormous nation and thus the market is complicated. With counterfeit goods, fake reputable brands and domestic brands that are costly but of low quality, many consumers have been cheated. Chinese consumers became therefore frightened of new and unfamiliar brands, and particularly cautious towards less recognized or unbranded products.

In addition, the legal system to protect consumers from fake goods is not yet fully developed as in the West. As a consequence, brand awareness should be a priority of focus.

2.2.2 Social media

A fundamental channel for branding are social media, which have a larger impact on the buying decisions of Chinese consumers than on those of any other country.

If a Chinese consumer sees a product being discussed positively on a social media site, they are far more likely to actually purchase the product.

⁷⁹ Kang Rongping 康荣平, *Guànjūn zhī dào: Lì jī zhànlüè shèjì yǔ shíshī 冠军之道：利基战略设计与实施 (The Way of Champions: The Design and Implementation of Niche Strategy)*, “该书主要介绍了利基战略的概念及具体应用”, China Translation and Publishing Corporation, 2006

Social media in China is fragmented and sophisticated. The two main social networking sites in China are WeChat and Weibo. In Chinese culture, they both exert significant influence and play an indispensable role in modern life.⁸⁰ Social media is already a place for Chinese customers to explore new brands, read reviews/ opinions/ experiences of other people with products and services before making purchases.

The online shopping function of social media makes the whole buying process faster, more convenient and thus the conversion rate of social commerce is very high.

Wechat, developed by Tencent in China, is a cross-platform instant messaging application, that was first launched in January 2011. This is one of the largest standalone messaging apps. Besides being a personal messaging app, it is also a social media platform, online payment tool and online shopping place. WeChat is the most used app in China, with more than a billion active users spending around 4 hours a day on it.

The goal of Wechat is to incorporate itself into every aspect of the customers' daily lives. It is helping them perform various tasks without leaving the app.

On the other hand, Weibo is an open social media platform where users come to socialize with friends and new people. Weibo content is created and shared by celebrities, famous bloggers, the media, government departments and ordinary users. The social media is therefore very suitable for viral campaigns or viral contents aimed at significantly boosting brand awareness extensively. Weibo Window allows users to link Weibo accounts to their e-commerce shops. It can promote direct sales as users can browse on a single page for all product listings, or may buy it right after reading product reviews on the website.

Brands can open Wechat shops to sell their products or services, which are linked to their official accounts. Buyers can easily access and browse shops smoothly as well as make purchases with one-click payment without leaving the app for an e-commerce platform.

A strong presence is a must on Wechat and Weibo. However, getting the brands noticed by customers in the noise of millions of posts, tweets and campaigns happening every second on those well-known sites is increasingly competitive .

A consequence of this difficulty into getting famous among all of the bigger brands, is the arise of more specialized platforms which serve unique niches. These smaller, passion-based networks allow brands to connect with customers that require unfindable and sophisticated products. Here is an example of a niche social media that is growing in popularity:

⁸⁰ Zheng Yong, *Bókè yíngxiāo – shénme shì lì jī bó kè? 博客营销 – 什么是利基博客? (Blog Marketing-What is a niche blog?)*, in “可能吧”, 2009, <https://kenengba.com/post/945.html>, July, 2020

Xueqiu 需求 (Snowball): Equity & Finance Social Media Network

Xueqiu was founded in 2010 and is a one-stop forum for discussing and learning about a wide range of financial services. For brands in the financial or real estate sectors, this may be the perfect social media platform.⁸¹ Numerous multinational brands have reached China over the past decade. And now they see it as their main arena for growth as well as new, smaller businesses looking for opportunities to make a fortune in this country.

The overseas reputation or financial capabilities may grant certain advantages. However, both global companies and start-ups face similar challenges when it comes to understanding Chinese consumers and their buying behaviors.

2.2.3 KOL, key opinion leaders

Another marketing strategy used in China are the influencers, better known as KOL. Key opinion leaders play an important role in both Weibo and WeChat marketing. They're bloggers, celebrities, authorities or professionals of a certain industry that have a huge number of followers. With the rise of blogs, KOLs started to set up personal accounts on which they used to discuss about their daily lives and/or about certain topics, through the use of articles, videos and photos. Since the very beginning, they started to catch other users' attention, increasing their fame day by day, until the point of becoming actual online celebrities.

The social influence of KOLs is enormous. Their posts not only reach a large and loyal audience but also influence significantly the purchase decisions of their subscribers. The figure of KOL in China is not something peripheral, but it is fundamental within brands' marketing strategies, that want to break into the market, raise products' awareness and increase sales, even more if it is brand's first entrance in Chinese market. Successful KOLs are people who managed to establish a powerful community, based on reciprocal trust.

The most popular form of cooperation with KOLs involves the production of content. Brands discover a KOL who likes their goods and represents their positioning in the market. They then negotiate and arrange for them to write and recommend their goods or services in promotional papers.

⁸¹ <https://xueqiu.com/> , August 2020

Besides the use of social media, the use of Internet, and e-commerce, has resulted as the most useful and winning niche marketing strategy in the Chinese market.

2.3 Niche marketing and e-commerce

E-commerce or electronic commerce, also known as e-business, refers to a transaction of goods and services through the use of electronic communications.

Even e-commerce has become common among users a decade ago, in reality this new type of purchase and sale had already been present in the virtual world for over forty years.

E-business is constantly growing, new technologies are used year after year and thousands of new businesses enter the online market.

E-commerce is clearly a growing phenomenon in China. From 1996 to 2002, the number of Chinese users who accessed the internet increased exponentially, recording an increase of 200% every year.⁸² In January 2005, the Chinese State Council announced the e-business development plan, and in 2007, China's first e-commerce development plan, the eleventh five-year e-commerce plan, was published. This amendment established the e-commerce strategy and purpose at the national policy level. Specifically, five basic objectives were defined following the development of e-commerce: eliminating restrictions on competition, reducing transaction costs and promoting the creation and improvement of a unified national market with the aim of optimizing the distribution of resources; promote industrial restyling; improve the efficiency and quality of the national economy and form a new economic force capable of giving new life to the internal market; promote the economic growth mode from extensive to intensive; be ready on a global economic level, improving competitiveness and the ability to distribute resources on a global scale.⁸³ After the Chinese state defined the role of e-commerce within the borders of Middle Earth, not only was there an industrial development, but also a transformation and improvement in production, and in the industrial service of the national economy.

⁸² Zhong Yuansheng, *Management of E-Commerce and E-Government*, New York, Nove Science Publishers, 2007

⁸³ Zheng Qin, *E-Commerce Strategy*, Hangzhou, Zhejiang University Press, 2014

There are numerous foreign companies that use online sales channels to reach Chinese consumers without having to go through physical stores. The importance of the sector, which currently accounts for 17% of total retail sales in China, is also demonstrated by a research by GlobalWebIndex (2017). 53% of users surveyed (aged 16-64) said they had visited an online store at least once in the last month, 45% of them had bought a product.⁸⁴

China represents an immense market for e-commerce and for Made in Italy exports. The Chinese population is made up of 1.4 billion people, with an urbanization rate of 60% in 2018.

Population growth is not only demographic, it is also about spending potential. In fact, China is the country that expects an increase in the wealthy population of 32.8% by 2021.

In China in 2018, as many as 600 million Chinese shopped online. An immense market when compared to the 180 million in the US and 300 million in Europe. The value of Chinese online sales is 682 billion euros, compared to 438 billion in the US and 196.3 in the UK.

Cross border e-commerce - as the electronic commerce of foreign products is called - is certainly an excellent opportunity also for Italian companies, which through these channels can penetrate the Chinese market. Without having to face the mandatory procedures for export and sale through traditional channels or the financial burdens of a physical store.

In this way it is possible to test the market, to understand which products can meet the taste of Chinese consumers and on which to concentrate their investments.

In China, e-commerce industry represents the strongest one and has spent the past decade growing, achieving the highest growth rate. The development of e-commerce is due to the increasing confidence of consumers in this sales channel but also to the growing number of operators active on the web and especially foreign investments, which have found fertile ground for their products in this market.⁸⁵

The Chinese online sales platforms are different, many of which have surpassed the Western giants Amazon and E-bay by turnover and number of users.

⁸⁴ *E-commerce in Cina. Oltre ad Alibaba c'è di più: il caso di JD.com*, in "East-media", <https://www.east-media.net/e-commerce-jd-618/>, September, 2020

⁸⁵ Steven MILLWARD, *China's ecommerce spending to blast past \$1 trillion in 2017*, in "techinasia-com", 2 November 2015, <https://www.techinasia.com/china-ecommerce-spending-to-blast-past-1-trillion-in-2017>, August 2020

The most important Chinese platform is Alibaba, which registers more than 289 million active users and one trillion RMB in revenue from mobile commerce, these figures make it the online market giant, the number one in the world in mobile commerce. Alibaba is made up of 25 business units, which include online messaging, internal finance and supply chain management. Alibaba is today the world's largest online platform for the global wholesale market, connecting millions of buyers and suppliers around the world. The site offers the possibility of purchasing any type of product, from beauty products to electronics, from industrial components to food.

Specifically, Alibaba's e-commerce is divided into two branches: the first business to business, which includes Alibaba.com, 1688 and Aliexpress; the second business to consumer with Tmall.com and consumer to consumer with Taobao.com.

Taobao.com, born in 2003, provides a C2C market (Consumer to Consumer) within which it is possible to carry out small business activities, it also gives entrepreneurs the opportunity to conduct their business in the Chinese regions or elsewhere, Taobao is now the largest and most developed Chinese consumer to consumer platform. Taobao can be defined as the Chinese version of eBay; on this site you can buy anything. There is only one problem that arises during the purchase on this platform, that is, you need to know how to read and write Chinese.

Among the players in the B2C sector, the leading companies are Tmall with 63.1% of market share and JD.com with 25.0%. Tmall.com (Business to Consumer "B2C") is a platform that is part of the giant Alibaba, which makes available its infrastructure to host virtual showcases for its products that can be viewed and purchased all over the world. The types of businesses that resell their products on this site range from luxury brands such as Burberry, Zara and Hugo Boss to consumer goods suppliers such as Sainsbury's, Macy's and Costco. Unlike Taobao, which provides free buying and selling, merchants who make a sale on Tmall owe a percentage to Alibaba.

JD.com is a Beijing-based company founded in 1998, specializing in the sale of household items, toys, books, food and air tickets.

These are followed by Suning (6.2%) and other minor operators.

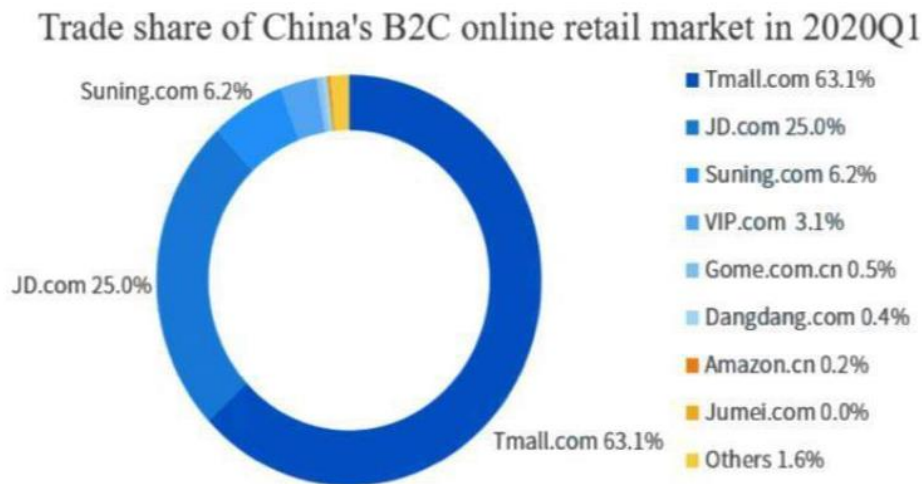


Figure 9 - shows the trade share of China's B2C online retail market in 2020Q1. ⁸⁶

Entire industries have already been shaken up in a major way by the Internet. Examples vary from sales to banking, to real estate, to the demand for desktop computers. New web-based market segments are being developed by hyper-differentiation. In addition, digital media, such as books, movies, music, and video, are currently undergoing an important change.⁸⁷

With the rapid development of e-commerce and the rapid rise of online shopping platforms, the total volume of market transactions has also maintained a rapid growth trend. China's online shopping market has maintained rapid and steady growth. The development of computer network technology has made search costs negligible. Because the types of products sold online are extremely abundant, consumers will try their best to buy products that meet their biggest needs instead of popular products. Therefore, studying the nature and market structure of niche markets has important theoretical and practical significance. In the Internet age, the evaluation system has changed: on the Internet, people use the oral communication effect to

⁸⁶ Analysis of the digitalization process of the e-commerce industry - - Analysis: In 2020Q1, the transaction size of China's B2C online retail market reached RMB 1.25226 trillion; the growth rate declined due to the epidemic, in "Analysis China", <http://www.analysischina.com/blog/article/264> , August 2020

⁸⁷ Hershey H. FRIEDMAN, Tomas LOPEZ-PUMAREJO, Linda WEISER FRIEDMAN, "A new kind of marketing. Creating micro-niches using resonance marketing", *Journal of Internet Commerce*, vol. 6 (1), 2007

create demand, which is replacing the traditional marketing method. In practice, on the one hand, compared with traditional marketing methods, the cost of online marketing is lower, which makes the competition between businesses more equal. On the other hand, most online merchants have greater survival pressure and generally poor profitability.

For a new generation of consumers, what is of the utmost importance is how Google search items and evaluate them. Therefore, companies also need to adapt to this change, especially through the advertising formula that they adopt to promote.

Niche marketing is about targeting. The internet makes the target market larger, more accessible, but the principles are the same whether you are developing a niche market business online or offline. The Internet has changed all that.

Word- of-mouth on the Internet (sometimes mentioned to as *word-of-mouse*) can generate an excellent deal of enthusiasm. There will be enough Websites promoting the merchandise if it is loved by enough people. Moreover, if distribution is via electronic commerce, shelf space is not a problem.

These years, a lot of food brand, coffee brand included, have chosen to take part in online sales as e-commerce is nowadays vital in China. This allows them to catch more customers. For example, the Nescafé brand cooperated with Tianmao (a platform of e-commerce, famous for its high quality product and reliability for imported food) during the international coffee day (at the end of each September). They invited Li Yifeng, a very appreciate idol and actor amongst young ladies, to promote their coffee. A video filmed by a reverse camera featured the celebrity speaking to his audience, phrases like “The coffee taste well! Do you want it?”. This campaign buzzed across the web and sales recorded after it went twenty times higher compared to daily sales.

Chinese consumers today are much more present online than in shops. In many markets, online shopping is almost inevitable. It enables, on one hand, to improve the visibility among clients and on the other hand, starting a company is a less risky option than directly opening a store.

2.3.1 Long tail and market structure analysis

To understand the Long Tail theory, the 20/80 theory should firstly be explained.

The twenty-eight rule, was concluded by the 19th-century Italian economist Vilfredo Pareto, and it prevailed in the industrial age. It demonstrates that, about 20% of the causes, cause 80% of the effects. For example, in traditional shopping malls, 20% of the best-selling products will generate 80% of sales, so traditional stores will focus most of their attention on the best-selling products.⁸⁸

The expression long tail, was coined by Chris Anderson to describe an economic and commercial model, used for example by Amazon.com and Netflix, in which revenues are obtained not only by selling many units of a few items (the best sellers), but also by selling very few units of many different items. It is a retail strategy where low-demand or low-volume products can collectively make up a larger market share than top-selling rivals, which are relatively few, if the store or distribution channel is large enough.⁸⁹

A large number of merchants are gathered on the online retail platform. Many merchants sell the same products. Consumers can easily go from one merchant to another by simply clicking the mouse and opening a link when purchasing products. This is different from the consumer's offline physical store shopping experience.⁹⁰

It is found that the graph of various commodities is a concave curve that decreases from the upper left to the lower right, and extends indefinitely to the lower right. This situation is

⁸⁸ Wang Shiwei 王世伟, *Shénme shì cháng wěi lǐlùn? Nǐmen yǒu xiángxì liǎojiěguò ma? 什么是长尾理论? 你们有详细了解过吗? (What is the long tail theory? Have you understood in detail?)*, in “首发于创业那些事”, Novembre 2016, <https://zhuanlan.zhihu.com/p/24043284>, July, 2020

⁸⁹ Chris ANDERSON, *The Long Tail: why the future of business is selling less of more*, Paris, France, Hachette Books, 2008

⁹⁰ Wang Shiwei 王世伟, *Shénme shì cháng wěi lǐlùn? Nǐmen yǒu xiángxì liǎojiěguò ma? 什么是长尾理论? 你们有详细了解过吗? (What is the long tail theory? Have you understood in detail?)*, in “首发于创业那些事”, November 2016, <https://zhuanlan.zhihu.com/p/24043284>, July, 2020

more obvious when there are more merchants selling the same product, which proves to a certain extent that the niche market in the online market has a long tail.⁹¹

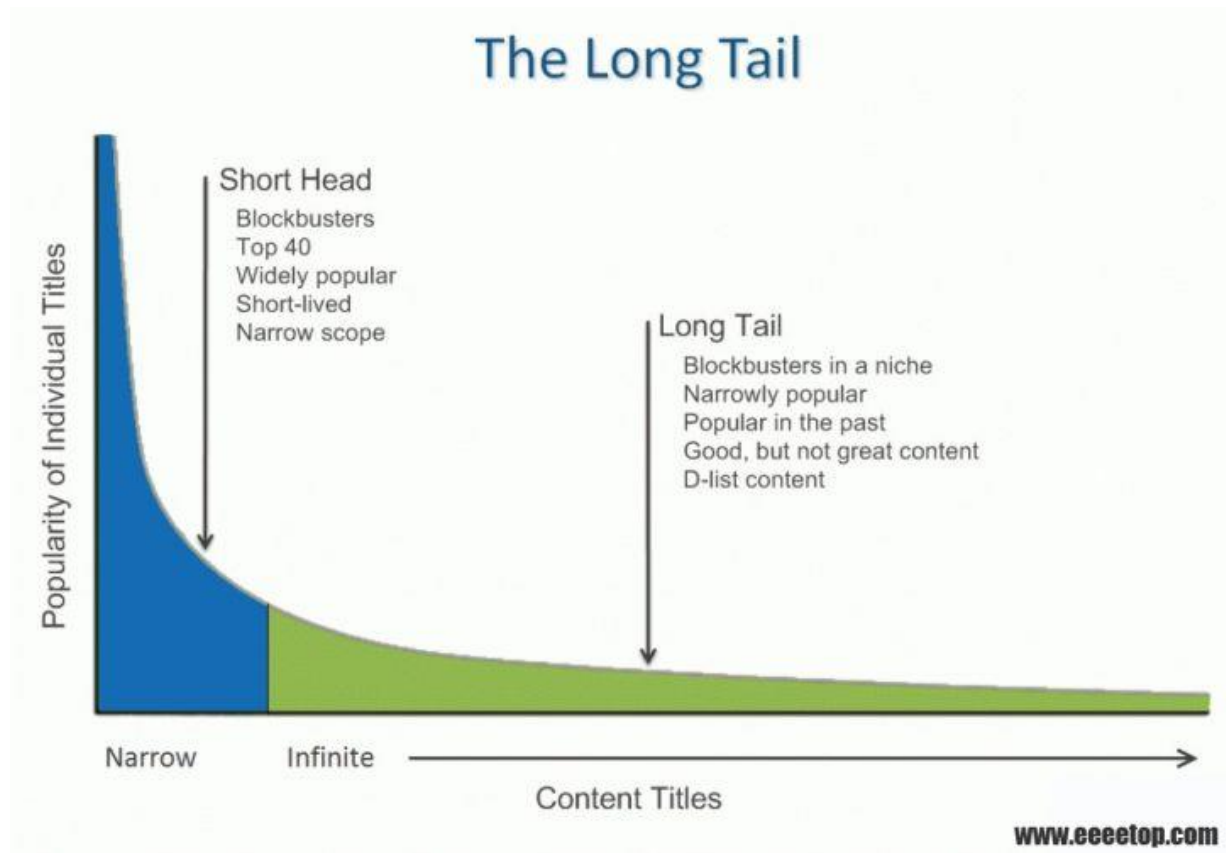


Figure 10 - represents the Long Tail curve

Although the niche market is a small field of goods or services, it can be seen that there are monopolies in most niche markets. The concentration of niche markets on Tmall.com is mostly oligopolistic. Since a few merchants account for most of the sales volume, there are high barriers to entry in the oligopolistic market, and newly entered merchants will be under great pressure to survive. However, there are still a few market structures that are niche markets with low concentration and competition. These types of markets are more suitable for new businesses to enter.

⁹¹ Wánměi lùn wén wǎng 完美论文网, *Lì jī shì chǎng shāng pǐn xiāo shòu cháng wěi xìng jì shì chǎng jiégòu yán jiū—yǐ tiān māo wǎng wéi lì 利基市场商品销售长尾性及市场结构研究——以天猫网为例*(Research on the Long-tail and Market Structure of Niche Market Commodity Sales—Tmall.com), in “wmlunwen.com”, 2017, <http://www.wmlunwen.com/shichangyingxiao/201712254843.html> , February, 2020

Choosing a niche market is one of the basic decisions that every online merchant must make. Before investing a lot of time, energy and money in online business activities, it is very important to find and select a niche market that is most likely to succeed. Merchants can check the popularity of search terms through platforms such as Alibaba Index, Taobao Express, Baidu Index, etc., which are used to analyze consumer needs and search habits and set keywords. The result is in a dominant position. In addition, merchants need to determine whether the structure of the niche market is monopolistic or competitive. It is difficult to survive in the early stage of entering a monopolistic niche market.

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Amazon is a typical example of application of the long tail theory. Some unsalable products buried in the vast array of products now have the opportunity not only to be displayed online, but also to be found by niche target groups who like them through search engines or personalized advertising recommendations. Another example is Google. Many small and medium-sized enterprises still attract quite good business to themselves through the use of relatively uncommon and relatively cheap keyword advertising.

The rise of the Internet has increased the importance of this "tail", which was then sharply grasped by Chris Anderson and made public.

The long tail economy does not make those unsalable products blockbusters and sell well, but to allow truly creative products to have the opportunity to meet its audience. The long-tail economy is not a marketing model that ends popular products. Marketing will take care of

both the "head and tail". Popular products will still sell well, but they will not absolutely dominate the world.

2.4 Examples of niche markets

1) Sustainable travel industry. Online sales in the travel industry increased by more than 10% in 2018, amounting to \$694.41 billion spent. The way consumers approach traveling is evolving. Travelers are becoming more environmentally conscious. According to Booking.com, more than half seek sustainable alternatives but have trouble finding them. This void represents a major opportunity for brands to promote environmentally friendly through sustainable goods. Travelers are pursuing more than just green options. They also look for genuine local experiences, comfort, and long-term trips.

Nomatic ⁹² is a luggage brand aimed towards travelers, but especially digital nomads that emphasizes functionality. From their brand to their copywriting, you can see this audience emphasis reflected across their entire organization. It is interesting to see that they categorize the luggage basing on the days that the traveler intends to stay away (1-3 days, 3-5 days or 5+ days).

2) GW company, started to land in China in 2006 and implemented a set of niche strategies for niche markets, such as segmenting customer groups based on customer needs, product differentiation design, limited sales of specific products, vertical organizational structure, etc. An in-depth analysis of the company's marketing strategy has resulted in some models that are beneficial for domestic SMEs to learn from and reduce the groping time for such products, so that they can quickly compete with well-known international board game manufacturers by virtue of these models.

3) Luxury industry. Market development is leading to substantial growth in luxury. The luxury market is an important economic force and - particularly for Europe - a substantial driver of GDP and competitive advantage.

The rise of experiential luxury, including categories such as high-end food and wine, luxury hotels, and exclusive vacations, is Another significant trend. Nearly half of all customers claim that they are purchasing less goods and buying more experiences, most of them are

⁹² <https://www.nomatic.com/> , September, 2020

Millennials. The experiential segment is expected to account for almost two-thirds of the overall luxury market by 2022, making a significant change in consumer behavior, from owning to being.⁹³

Moreover, not only for the functions they have but also to reflect their social status, Chinese people buy brands. Additionally they are paying more and more attention to the way other individuals perceive them. Chinese consumers are willing to pay more if the brand can bring them prestige and respect among their social circle. That is why luxury consumer products enjoy such phenomenal growth in China for the past 2 decades.

4) The food industry. The huge demand for artisan food has spawned many businesses, from specialty chocolates to cheeses, jams and jellies, tea and coffee. From 2010 to 2015, gluten-free product sales increased 34% year-on-year, and total US sales are expected to reach \$ 2.34 billion by 2019. Local cafes and bakeries specialize in gluten-free products can be found everywhere. As consumers become more concerned about hormones and pesticides used in conventional food growing, sales of organic produce continue to grow.

With the rise of e-commerce channels, traditional sales channels are facing increasing rent and labor costs, and cost pressures are increasing. In recent years, traditional tea companies have gradually realized the importance of channel diversification, intensified their diversification efforts, continuously increased investment in e-commerce channels, and established flagship stores on Taobao and JD Quotient.

Among others, Food delivery apps have an estimated 355 million users in China which means a quarter of all Chinese people are ordering foodstuff, meal kits from their phones. In Beijing alone, there are more than 1.8 million food delivery orders placed every day.

The image on the internet is crucial. All food and beverages are not necessarily of good quality, and the price fixed on the web isn't an indicator in which consumers can rely on. Potential purchasers definitely know that, so they prefer to see the comments from other consumers before their purchase owing to the cost. One of the most used applications in China to consult different shop's rating is Dazhong dianping.

The next chapter is going to analyze more in detail the agri-food industry subject, especially focusing on tea and coffee market in China.

⁹³ C. BARTON, N. PIANON, M. TSUSAKA, S. WILLERSDORF, *Growth in the luxury market*, <https://www.bcg.com/it-it/industries/consumer-products-industry/luxury-market> , September, 2020

CHAPTER 3

Chinese tea and coffee market: two case studies of niche market

3.1 Tea market

Tea is one of the three dominant beverages in the world. There are more than sixty countries and regions in the world that produce tea, and the population of tea drinkers exceeds two billion.

Tea contains many ingredients such as tea polyphenols, tea polysaccharides, theanine, vitamins and minerals. It has the functions of refreshing, digestion and anti-oxidation, and is loved by consumers all over the world.

In December 2019, the United Nations General Assembly announced that May 21 each year will be designated as "International Tea Day" to praise the economic, social and cultural value of tea and promote the sustainable development of global agriculture.

Tea does have mysterious origins, but it is certified that China cultivates the tradition of the tea since a long time. It can be considered a constant representative of the ancient Chinese culture.

Among the first to spread tea consumption in China, probably as early as the fifth century AD, there were Buddhist monks, who promoted it as a substitute for alcoholic beverages. This link between tea and Buddhism, between the drink that awakens and the doctrine of the "Awakened", will accompany the whole history of tea in East Asia.

However, the most enthusiastic cultivators and promoters of the use of tea in China were not so much the monks, but the Confucian literati, the *wenren* who constituted the élite of Chinese society and among them the officials of the empire were selected through a strict system of examinations.

During the Shang dynasty (1600 - 1046 BC) tea was considered as a sacrificial offering, later it was offered as a tribute to the emperor.⁹⁴ During the western Han dynasty (206 BC - 220

⁹⁴ Livio ZANINI, "Tradizione e Innovazione nell'arte del tè in Cina e in Giappone", *Zenlife Magazine*, 2007, pp. 35-39

AD) the first tea market developed, and tea production was already remarkable. In the period of the Wei and Jin dynasties (220 - 420 AD) knowledge increased and tea production technology improved. But it is only with the Tang dynasty (618 - 907 AD) that we have the first treatise on tea, known as 茶经 *Chajing* (The canon of tea ⁹⁵), the first text entirely dedicated to this drink. Written by Lu Yu in 760 AD, who after investigation and study of the classics had become an expert on the subject: in his treatise he presents the characteristics of the plant and the most suitable methods to work it and, above all, to enjoy its benefits.

During the Ming dynasty (1368 - 1644 AD) tea production was greatly stimulated and a distinction was already made between green tea, yellow tea and Pu'er tea. During the Qing Dynasty (1644 - 1911 AD), the most important types of tea in China had no more secrets for tea producers: black tea and white tea varieties were added to the Ming era teas. Following the Opium War (1840 - 1842), however, the tea industry slowed down and recovered only after the founding of the People's Republic of China in 1949.

Since the Tang Dynasty, tea has evolved from a plant element to an indispensable and important content in people's lives. Especially at this time, the breakthrough development of the level of tea productivity not only created the mechanism of tea culture, but also formed a tea industry based on popular tea drinking and containing a variety of cultural connotations and spiritual concepts. With the vivid construction of the modern social and cultural exchange system, the entire tea industry has broken through regional restrictions and developed into a worldwide tea culture, which not only greatly enhances the application value of tea resources, but also realizes the vivid construction of the connotation of tea culture resources.

Furthermore, over the years, the productivity of the plantations has also grown: it must be taken into account that technological progress has become the main factor in terms of production efficiency. The result of tea production no longer depends only on the extent of the plantations, but is based on the technology and the benefits that derive from it. Effectively, high-quality tea has gradually replaced the most common tea, becoming the dominant product of the Chinese tea industry and it is now known all over the world for its fine varieties.

It is mainly following the Reform and Opening policy adopted by Deng Xiaoping in the 1980s that the Chinese tea industry has received a strong boost in development. Not only it is the backbone of the Chinese industrial sector, but the production of tea also represents a

⁹⁵ Lu Yu 陆游, *Chajing* 茶经 (Il canone del tè), Quodlibet, 2013

precious source of profit on the global market: it is, indeed, one of the most relevant export items in this country.

This change is also due to the fact that since 2012 there has been a drop in the production. The reason is that potential resources have now been fully invested, so other factors need to be exploited.

3.1.1 Tea market in China

For millennia, China has been a tea-drinking society. China is the lead producer and consumer of tea in the world: in 2017, China produced over 2.4 million tons of tea. This is almost double that of the second largest tea producer in the world, India.

China’s sales of tea will sustain an upward trend. With the rise in Chinese residents’ income, quality will become a significant factor in the sales of tea.

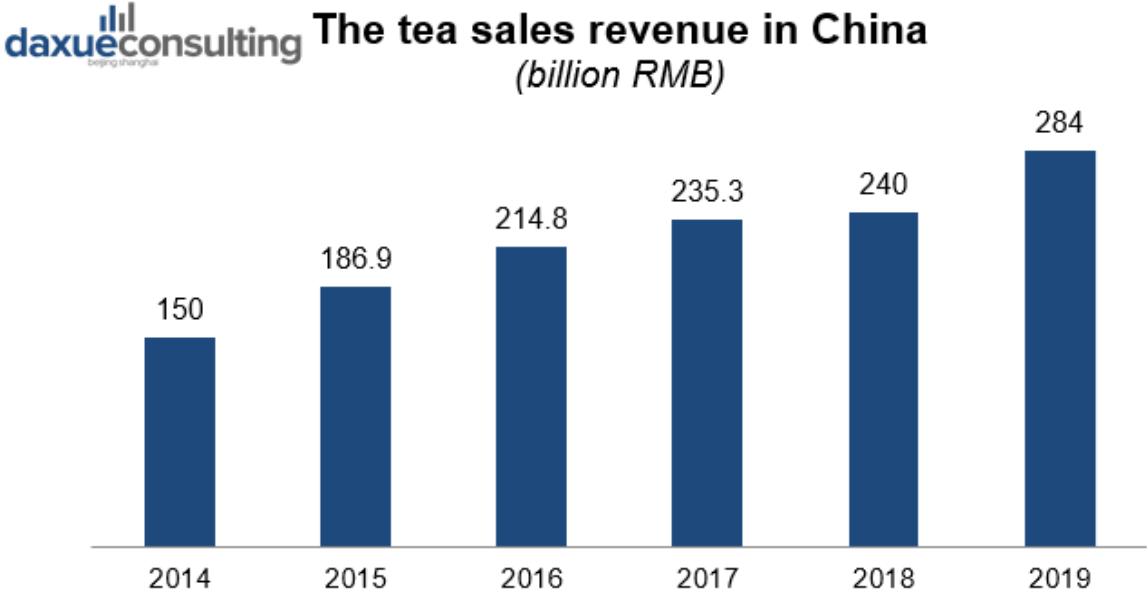


Table 4- represents the tea sales revenue in China: Qianzhan, tea market in China report by Daxue consulting.⁹⁶

⁹⁶ *The tea market in China: analysis of the largest tea market in the world*, in “Daxue Consulting”, 25 June, 2020 <https://daxueconsulting.com/tea-market-in-china/>, September, 2020

According to the statistics from the "China's Tea Industry Production and Sales Demand and Investment Forecast Analysis Report" released by the Prospective Industry Research Institute, in 2016, China's tea consumption was 1.82 million tons, an increase of 5.2% year-on-year. As of 2017, tea consumption reached about 1.9 million tons, a year-on-year increase of 4.4%. The compound annual growth rate in the next five years (2019-2023) will be about 5.06%, and it is predicted that tea consumption in China will reach 2.51 million tons in 2023.

2011-2023 年我国茶叶消费量统计情况及预测

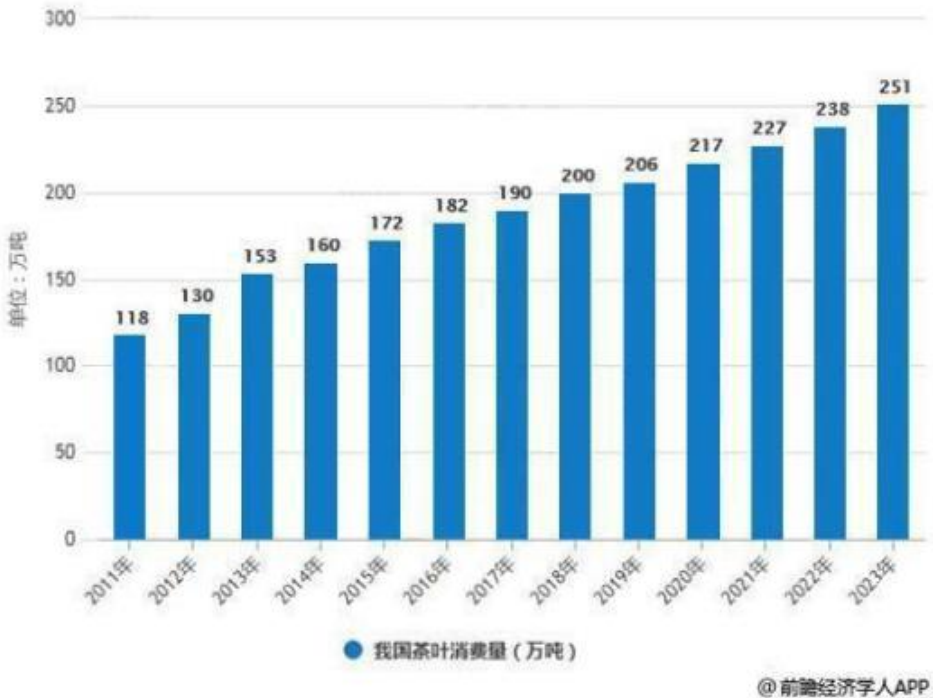


Table 5 - shows the statistics and forecast of tea consumption in China from 2011 to 2023. Foresight Industry Research Institute ⁹⁷

In 2016, China's tea market sales reached 214.8 billion yuan, a year-on-year increase of 14.9%. As of 2017, China's tea market sales reached 235.3 billion yuan, a

⁹⁷ <https://foresight.org/>

year-on-year increase of 9.54%. It is predicted that China’s tea market sales will reach 284 billion yuan in 2019, with an average annual compound growth rate of about 9.01% in the next five years (2019-2023).

2014-2023 年我国茶叶市场销售额统计情况及预测

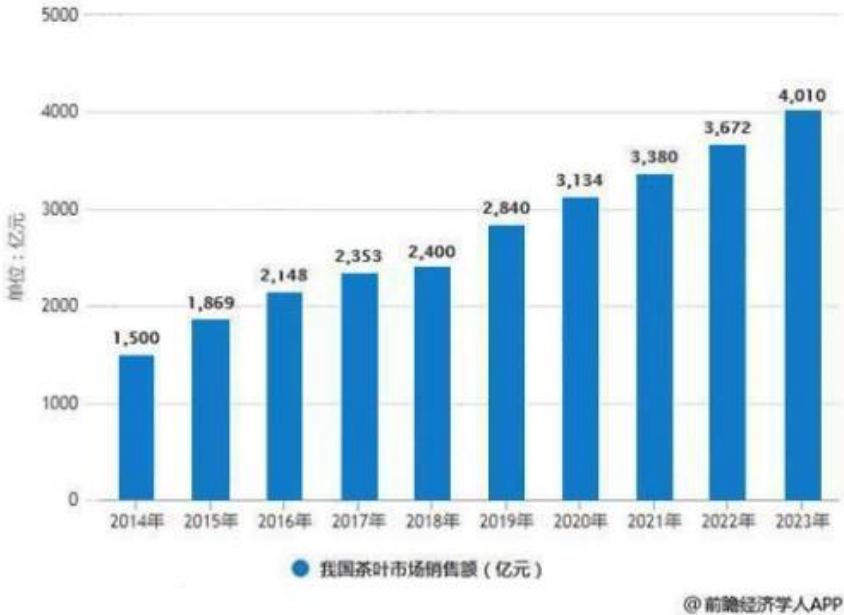


Table 6 - Statistics and forecast of China's tea market sales from 2014 to 2023. Foresight Industry Research Institute ⁹⁸

Tea leaves can be divided into six basic tea types: green tea (绿茶), white tea (白茶), yellow tea (黄茶), oolong tea (青茶), black tea (红茶), and reprocessed tea (黑茶). At present, Yunnan is the center of diversity of the broad-leaf variety of the tea plant and its

⁹⁸ 2019 Nián zhōngguó chá yè háng yè shì chǎng xiàn zhuàng jí fā zhǎn qū shì fēn xī “hù lián wǎng +” diǎn fù chuán tǒng mó shì dǎ kāi xīn shí dài 2019 年中国茶叶行业市场现状及发展趋势分析“互联网+”颠覆传统模式打开新时代 (Analysis of the market status and development trend of China's tea industry in 2019 "Internet + subverts the traditional model and opens a new era), in “Forward the Economist”, January 2018, <https://bg.qianzhan.com/report/detail/459/190219-50b4b42d.html> , September, 2020

wild relatives. The native tea growing area extends from Yunnan to contiguous parts of China, Laos, Vietnam, Myanmar, and India. Eleven of the twelve wild tea relatives are distributed in the Yunnan-Guizhou Plateau.⁹⁹

The predominant production is that of green tea which alone exceeds 60% of national production. Considering China's huge market demand, for a considerable period of time, green tea will continue to retain its production advantage. Dark tea is the second most produced tea in China, which is followed by black tea.

At present, green tea and dark tea occupy the main share in the tea market. In 2019, the proportions of the two were 61% and 13% respectively; however, the proportion of production in recent years has been declining.

At the same time, the share of other teas such as black tea, Oolong tea, and white tea has gradually increased, with Oolong tea, black tea, white tea, and yellow tea accounting for 26%.

⁹⁹ Selena AHMED, John R. STEPP, Robban A. J. TOLENO, and Charles M. PETERS, *Increased market integration, value, and ecological knowledge of tea agro-forests in the Akha highlands of southwest China*, in "Ecology and Society", 15 (4): 27, 2010, <http://www.ecologyandsociety.org/vol15/iss4/art27/> , August 2020

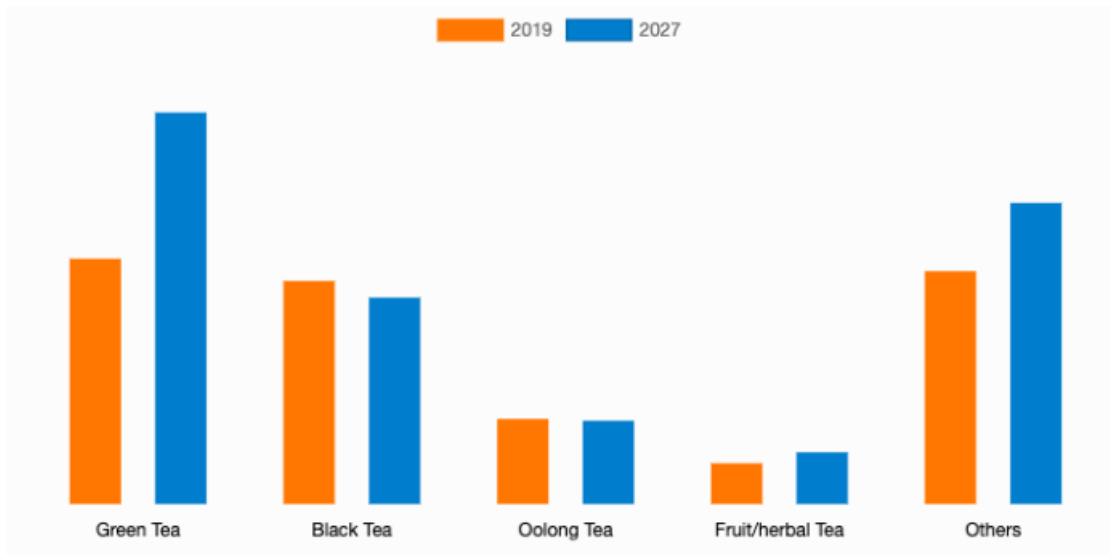


Table 7 - shows the statistics on the proportion of various types of tea production in China in 2019 and 2027.¹⁰⁰

Since 2014 there has been the booming of a new style tea, known as 新式茶饮, which consists of fresh tea leaves and milk or cream.

Among the countries that produce tea, the top three countries for tea production are China, India, and Kenya, with their output of 2.616 million tons, 1.339 million tons and 493,000 tons, respectively.

In 2018, the total global tea production of tea was 5.9 million tons, of which China contributed 2.6 million tons (44.7%).

The top ten tea consumers also include India, Turkey, Pakistan, Russia, the United States, the United Kingdom, Japan, Indonesia, and Egypt.

China's tea industry has formed an industrial chain that traverses the primary, secondary and tertiary industries. With the upgrading of consumption and the improvement of health concepts, China's tea consumption continues to grow.

The reason why China is the place of origin of this beloved drink is simple: the countless natural resources and the particularly favorable climate.

¹⁰⁰ Sumesh KUMAR and Roshan DESHMUKH, *Global tea market: opportunities and forecast 2020-2027*, in "Allied Market Research", June 2020, <https://www.alliedmarketresearch.com/tea-market>, September, 2020

China's tea areas are vast, and the main tea producing areas are distributed in the range of 18°~37°N latitude and 95°~122°E longitude, covering thousands of counties and cities. From the perspective of regional division, China has four national first-class tea producing areas in South China, Southwest, Jiangnan and Jiangbei.

Due to differences in soil, altitude, water and heat, vegetation, etc., the quality and types of tea trees and tea produced in the four major tea regions are also different.

Jiangbei temperatures do not exceed 15 ° C which makes this area particularly suitable for the cultivation of green tea. Xin Yang Mao Jian green tea, produced in Hunan, and Liu An Gua Pian green tea, produced in Anhui, are particularly renowned in this region.

The Jiangnan region, on the other hand, is the tea production area which alone produces one third of the total tea production in China. Plantations located at high altitudes are preferred in this region because the average downstream temperatures are high and this would adversely affect the quality of the product.

The southern region of China, also known as Lingnan, stands out for white, black and Oolong teas, while it is not particularly appreciated for green teas, with the exception of the fragrant green tea known as Jasmin Tea. Oolong teas from this province are particularly appreciated for their distinctive feature: the widespread presence of red clay in the territory which guarantees the tea produced a unique flavor and aroma.

Finally, southwestern China is made up of Sichuan, Yunnan, Guizhou and a part of Tibet: it is recognized as the absolute home of tea and boasts a varied collection of sublime Pu'er and black teas, the Dian Hong of Yunnan is considered the pearl of the region.

The importance of expanding the cultivated area should not be underestimated: starting in the 2000s, the extension of tea plantations in China grew significantly, keeping China in first position for the area cultivated with tea. Consequently, the total quantity of tea produced also increased in those years. In 2006, 1117.5 thousand hectares were planted with tea, in 2013, only 7 years later, the hectares used for this purpose rose to 1750 thousand, almost 57% more than in 2006.

3.1.2 Unfavorable factors in the development of China's tea industry

The high consumption of tea production resources: although the degree of improved varieties has been greatly improved, the certification rate is low. Organic tea certified tea gardens are less than 10%. The comprehensive management level of tea gardens is not high. The number and scope of service organizations in disaster prevention, soil improvement, and comprehensive management are limited. The construction of tea gardens is still in the initial stage of passive response rather than active planning and management. The illegal use of agricultural inputs in some tea gardens directly restricts the improvement of tea food safety. In tea production and processing, the popularity of clean energy is low. In some areas, wood and charcoal are still the main source of energy consumption and heavy pollution.

Restricted production methods and low resource utilization: tea production still focuses on famous and high-quality teas, and the raw materials focus on delicate green tea, resulting in partial waste of production resources, low tea yields and high tea prices, and insufficient international market competitiveness. From planting and cultivation to picking and processing, there is a high degree of dependence on labor. The mechanized tea production has poor continuity, low coverage of the whole process, and severe labor shortages in stages. The modern management technology of tea gardens is insufficient, lack of unified planning, low production efficiency, high cost, and low resource utilization rate.

Backward management methods and insufficient integration into social production: the mode of operation has not escaped from the limitations of the industry, the introduction of comprehensive social production resources is insufficient, the rate of contribution to industrial upgrading is low, and the adoption and utilization of new resources, new technologies and new models are relatively low.¹⁰¹

¹⁰¹ Wu Xiaoyan 吴小燕, Zhu Linhui 朱琳慧, *Nián zhōngguó chá yè háng yè shì chǎng xiàn zhuàng jí fā zhǎn qū shì fēn xī "hù lián wǎng +" diǎn fù chuán tǒng mó shì dǎ kāi xīn shí dài*, 年中国茶叶行业市场现状及发展趋势分析 “互联网+” 颠覆传统模式打开新时代 (Analysis of China's Tea Industry Market Status and Development Trends "Internet+" Subverts the Traditional Model and Opens a New Era, in "bg.qianzhan", 2019, <https://bg.qianzhan.com/report/detail/459/190219-50b4b42d.html> , September, 2020

3.1.3 Prospective for the tea industry

The implementation of the "Belt and Road" strategy will bring new historical development opportunities for the development of China's tea industry.

The "Belt and Road" covers 4.4 billion people in the world. This area is the most important tea production and consumption area in the world, and it contains a huge dividend of tea drinking population. Countries such as Morocco, Uzbekistan, the United States, Japan, and Russia, which export large amounts of Chinese tea, are all along the "Belt and Road".

In order to support the "Belt and Road" infrastructure construction, China has led the establishment of the BRICS Development Bank and the Asian Infrastructure Investment Bank. These two regional financial institutions complement each other, jointly promote the construction of infrastructure and interconnection in relevant countries and regions, further accelerate the integration process of interconnection in the Asia-Pacific region. In particular, the central and western regions of China, which are located along the inland Silk Road, will greatly improve traffic conditions and facilitate the entry of tea products and personnel from the main eastern regions into the central and western regions and countries along the "Belt and Road".

As the country continues to introduce measures around the "Belt and Road" to eliminate investment and trade barriers and improve customs clearance facilitation, the development of tea trade in the "Belt and Road" region will continue to obtain favorable policies. Countries along the Belt and Road signed a memorandum of cooperation to simplify visa procedures for people to come and go, which will greatly facilitate the entry and exit of personnel and tea products. The national development strategy of the "Belt and Road" initiative is a strategic opportunity for China's tea industry.

The Internet will promote the transformation of tea circulation mission, circulation operation and circulation organization. With the launch of the "Internet +" action plan, the Internet will continue to subvert the traditional tea industry's organizational form, business rules, industrial chain, and competitive landscape, and extend many new business models and sales models. Companies will use the Internet and big data to study consumer needs and changes, especially the needs and preferences of the new generation of consumers, in order to adjust the scale of development, product direction and innovation content of the company.

In the future of the Internet, especially in the mobile Internet era, precision communication will become an important communication tool: WeChat marketing and other methods may have an impact on people's purchasing decisions. "Internet +" will reconstruct the competitive landscape of the tea industry and open up a new era of tea industry development.

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3.1.4 Comparison between a mass market and a niche market tea website

The tea market is a kind of market that can be considered a mass market, because of the large use of this product and for the variety of brands that consumers can find in the shops. However, lately, the tea market has become more and more unique, to the point where some special type of teas are unobtainable and very expensive. As people pay more and more attention to food safety and health, consumers' requirements for tea products are also increasing. In addition to paying attention to the taste of tea products, more and more consumers pay more attention to the quality of tea products. The brand is the integration and external manifestation of the internal quality of the product. To a certain extent, it represents excellent quality and high-quality service. Therefore, branded tea companies with a good reputation are more likely to be trusted by consumers. As people pay more and more attention to the choice of branded products, "brand" has become a key factor when consumers buy tea. Branded tea companies will continue to increase their competitiveness and expand their market share.

In these years it has been fundamental to find a new competitive advantage: quality. Nowadays the development of the tea industry in China must focus on the quality of the product and not on the quantity produced, only this would allow to produce a good of higher and diversified value which justifies a higher price on the international market and therefore would

¹⁰² 2019 Nián zhōngguó chányè hángyè shìchǎng xiànzhuàng jí fāzhǎn qūshì fēnxī "hùliánwǎng +" diānfù chuántǒng móshì dǎkāi xīn shídài 2019 年中国茶叶行业市场现状及发展趋势分析“互联网+”颠覆传统模式打开新时代 (Analysis of the market status and development trend of China's tea industry in 2019 "Internet +" subverts the traditional model and opens a new era), in "Forward the Economist", January 2018, <https://bg.qianzhan.com/report/detail/459/190219-50b4b42d.html> , September, 2020

lead to a consequent increase in the sector's profitability. The tea industry is going from increasing production (mass marketing) to improving the product (niche marketing).

China is actually the nation with the greatest potential for capturing the largest share of the global economy. One approach businesses are exploring, is that of a niche market strategy. In view of the current rise of import levels from China for selected goods, niche marketing has become a focus point for global companies, and in particular for US companies. Product concentration, i.e. niche markets, has been proven to be linked to profitability.¹⁰³

Changing traditional tea marketing concepts and methods has provided realistic possibilities for tea market segmentation. In the future, tea companies need to use big data to accurately locate target customers, provide precise services, and achieve close interaction with customers with sophisticated services, so as to provide the possibility to continuously improve product quality and promote product innovation.¹⁰⁴

With the improvement of people's living standards and the continuous promotion of tea culture, tea has been accepted by more and more consumers due to its natural and healthy characteristics, and tea consumers are showing a younger trend; more and more consumers no longer simply buy one kind of tea, but tend to try diversified types.

At the same time, tea consumption has been continuously extended and refined from the original "gift" and "self-drinking", deriving diversified new demands and new models. In recent years, with the rise of the value of tea collections, the consumer demand for high-end collections and the demand for customization have increased significantly.

As niche marketing is generally concentrated in a narrow market, when the demand in the market is changed by some influence or faced with a strong positive attack from competitors, the sales volume is more likely to fluctuate, resulting in a sudden decrease or even elimination of profits.

Two strategies for niche teas exist: the first one is the "advocating nature" strategy. With the enhancement of healthy consumption awareness, people pay more attention to returning to

¹⁰³ Michael PORTER, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York, NY, Simon & Schuster Inc., 2004

¹⁰⁴ Erin D. Parrish, Nany L. Cassill and William Oxenham PARRISH, Erin D., CASSILL, Nancy L. and OXENHAM, William, "Niche market strategy in the textile and apparel industry", *Journal of Fashion Marketing and Management*, Vol. 10, No. 4, pp. 420-432

nature in food consumption, hoping to drink original tea without multi-channel processing. So it is important, when putting in the market a special tea, to underline the fact that it is natural and healthy.

The second strategy is the "conceptual marketing". Companies should publicize the relationship between drinking and health in an all-round way; they should publicize the positive function of tea culture in the development of interpersonal relationship. ¹⁰⁵

The analysis will be conducted specifically on green tea. The most common mass-market e-commerce, when thinking about tea, is Twinings.

TWININGS ¹⁰⁶

In 1706, when the most popular beverages were coffee, gin and beer, Thomas Twining began trading tea with the East Indies. Tea has since become the favorite hot drink in Britain and from there it spread throughout Europe. Twinings is the world's second largest producer of tea. It is a tea brand from England. For more than three hundred years, Twinings has been synonymous with tea in the world. Thanks to their master blenders, the brand is always committed to offering the best tea and infusions, the most original blends and the most authentic flavours. The business is known today as Twinings Ovo, and is part of the larger organization, Associated British Foods (ABF).

The company produces over 250 blends of teas, infusions and herbal teas: there is a blend suitable for every lifestyle, taste, mood or time of day. The English Breakfast and Earl Gray are the two best-selling references in the world.

The strategy of Twinings is that the company is part of an international group of companies, but being of a smaller size, compared to the competitors, they have an important operational advantage, freeing them to act as a dynamic, entrepreneurial business. Unhampered by bureaucracy, their strategies are highly competitive, based on local conditions, creative marketing and brand investment. This enables Twinings to be more agile and more flexible, to have ideas and to drive them forward in a fast-changing global marketplace.

¹⁰⁵ Jinzhong ZHANG, *Puer tea, Ancient Caravans and Urban Chic*, A China Program Book, University of Washington Press, 2014

¹⁰⁶ <https://www.twinings.co.uk/> , September, 2020

Maintaining innovation in premium-quality teas, which relies on research about Chinese consumers, is the most effective strategy. They are the only imported tea brand that has heavily invested in China in research and communications. This will guarantee longevity for long-term business.

The royal-warranted tea brand entered the Chinese market in 2006, bringing its standardized design and production of tea in China. The Chinese market helped Twinings reach every corner of the market while also building brand awareness among Chinese consumers. The company has beat Chinese competitors and received recognition from China's middle class by offering products not found in local tea shops and continuously innovating its premium teas during the past decade.

Twinings invested in building a local factory and hiring local employees. With this strategy, the company greatly reduced the costs and localized the brand. It helped the brand to act quickly to fulfill the needs of Chinese customers.

In recent years, Twinings has achieved double-digit sales growth, in addition, increased brand recognition and market share within the premium imported tea segment.

It also developed a special limited edition blend that contains premium black teas from China and Ceylon during the 2010 Shanghai World Expo period. As more and more young people become keen to try different teas from traditional Chinese blends almost every global tea maker has become eager to explore the Chinese market.

In China, the company has set up a Twinings Tea Academy, that works closely with hospitality institutions to provide training and even scholarships to help people who are interested in learning more about the culture of Western tea.

In twenty-one cities across China, Twinings' goods are sold in high-end shops and imported food markets.¹⁰⁷

From the Twinings e-commerce, the effort that the company has made to emphasize its commitment to using the best plantations, those that ensure high quality ingredients and compliance with certain ethical and social standards, is evident.

Their Sourced with Care program aims to support all those changes that can guarantee a dignified quality of life for the people who work on the plantations and in the countries where they buy their raw materials. This program aims to improve the lives of 500,000 people in local communities by 2020.

¹⁰⁷ Tang Zhihao, *Twinings gives tea drinkers a taste of British blends*, in "China daily", 2015, https://www.chinadaily.com.cn/world/2015-03/02/content_19693786.htm, September, 2020

The first page of Twinings China ¹⁰⁸ appears cheerful and animated. The first thing that potential purchasers notice is the representation of a common European breakfast, with tea, milk and sweets. In addition, the ritual of drinking tea as an action that takes place in a group, is shown.

From the beginning is clear that Twinings is presenting a kind of e-commerce that refers to everyone, to customers of every age.

Opening the page dedicated to the green tea, it is noted that the typology of tea is simply translated in English, without any description of the specific green tea leaves.



Figure 11 - shows the page dedicated to green tea

From the image, we can notice that Twinings only offers three types of green tea, each one sold under the form of tea bags. Each package contains forty tea bags, the average price is £4 each.

¹⁰⁸ <https://www.twining.com.cn/>, September 2020

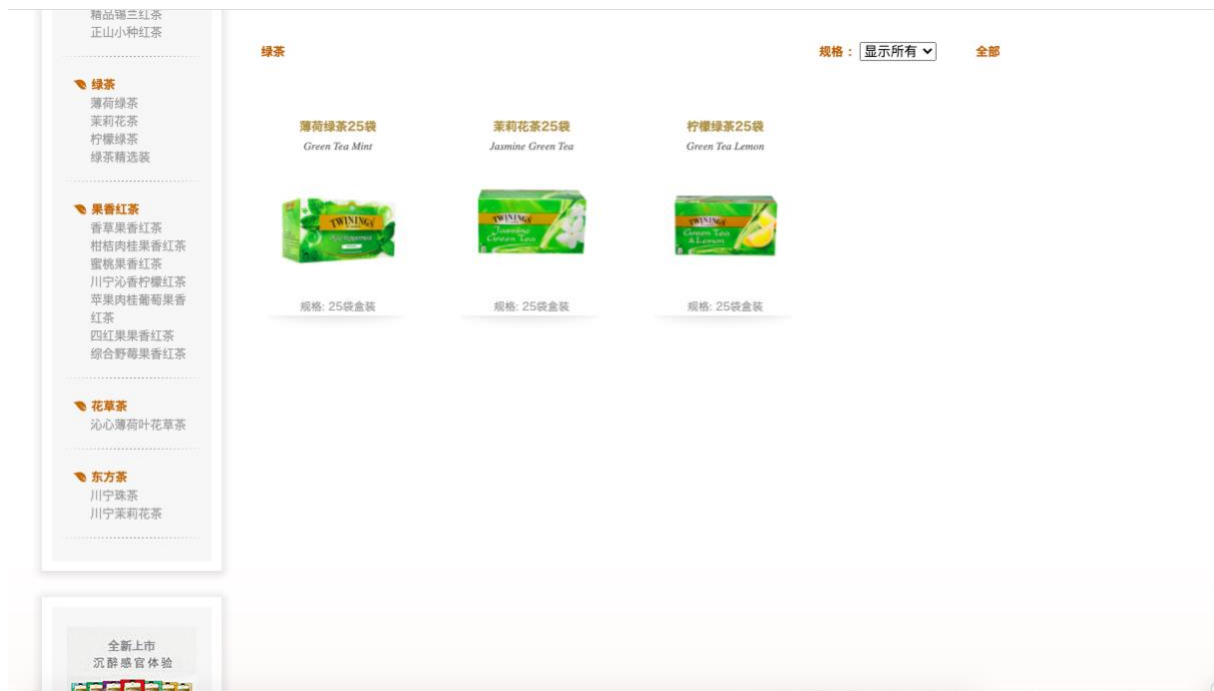


Figure 12 - shows the variants of green tea that the company offers

Tea is traditionally a leisure product. Many Chinese brands, therefore, target middle-aged and elderly individuals, who have more leisure time. Most Chinese tea brands sell loose leaf tea, which can make people enjoy the process of brewing tea. Twinings mainly targets on white-collar workers in China and young adults in urban areas. The brand uses its tea bags as a competitive difference in China's tea market, because it is convenient and safer. It also greatly simplifies the steps of drinking tea in China.

TEAVIVRE¹⁰⁹

For the niche e-commerce, a great example is TeaVivre, a high-end Chinese tea brand launched in 2011. The brand targets young adults with strong consumption power and pursue the quality of life.

Teavivre positions its products as high-end. Using well-designed packages, the brand constructed its high-end image. It can create the distinct impression of modern luxury for consumers. As containers, Teavivre utilizes aluminum cans and high-end gift boxes, that make

¹⁰⁹ <https://www.teavivre.com/>, September, 2020

tea safe, and easy to conserve. Therefore, items from Teavivre are now common gifts during some Chinese holidays.

From the first page of the e-commerce, high-quality is already perceived. The website is owned by a Chinese woman, and from the beginning the feeling of China is perceived, as she wants to send the message that the teas sold on her website are dedicated to the customers that understand of tea, especially the origins.

Almost 40 percent of the world's tea is already consumed by China's 1.4 billion people. Chinese customers prefer tea products of higher quality, often depending on the certification to ensure that tea is organic and sustainably produced. In addition, they agree to pay much more per serving than Western tea buyers.

Choosing the green tea section, this niche e-commerce immediately communicates different emotions, adopting softer colors and a calm landscape. It is also important to notice that each page of this website starts with a little description of what the customers is going to find.

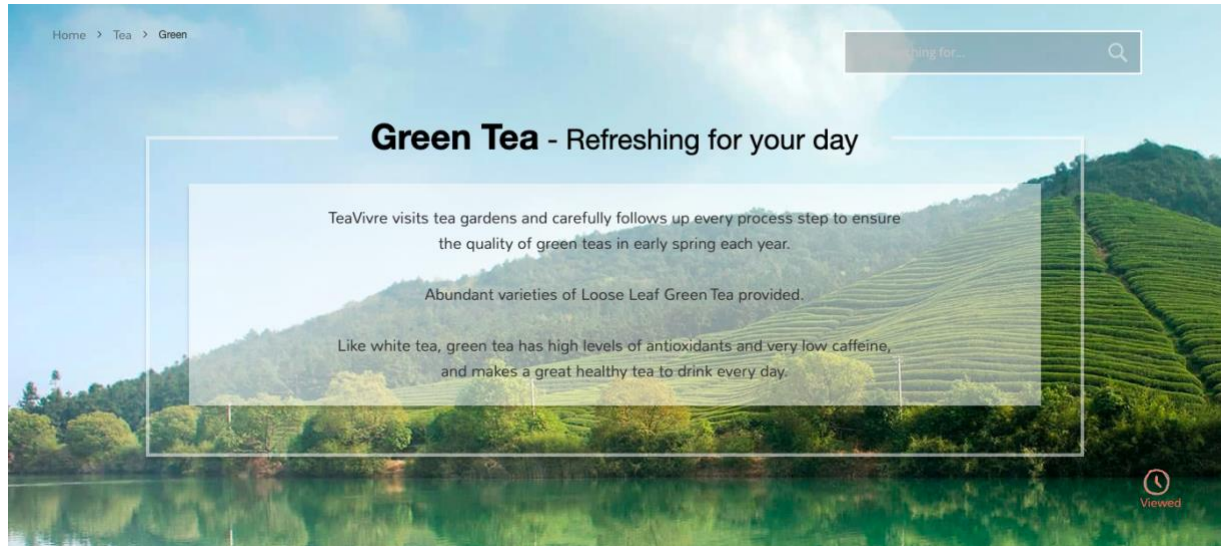


Figure 13- represents how Teavivre carefully describes green tea

The green tea section, offers forty-three different categories. As we can see, green tea on Teavivre is only sold as loose, each one with a detailed and precise title. The average price

for 100g is £21,75. Each tea has a specific and long definition. From this, we can already figure out that this website is created for connoisseurs of tea.

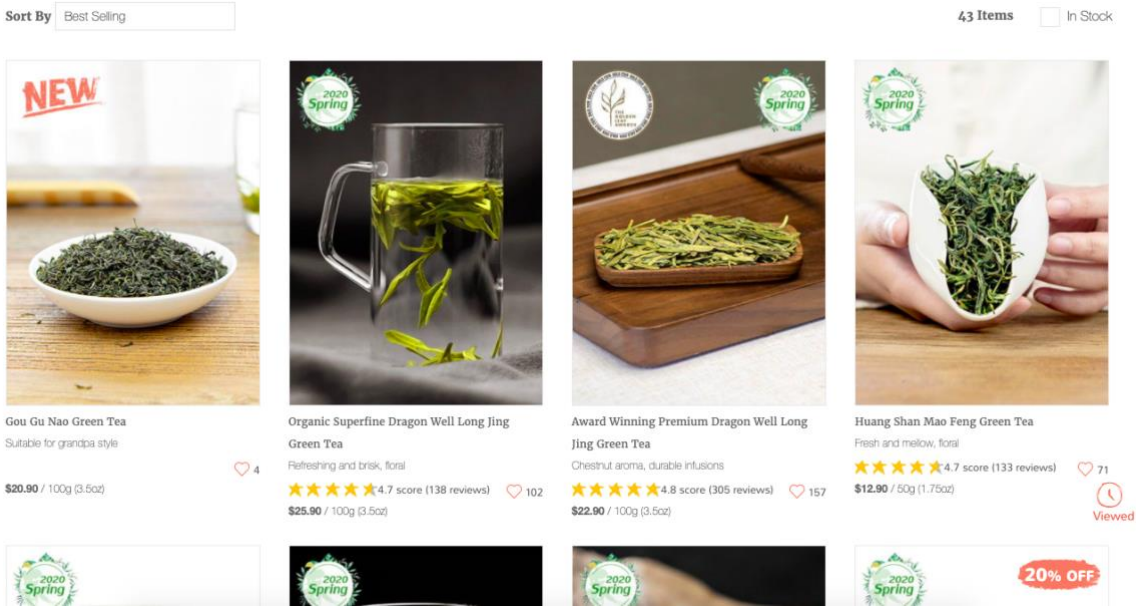


Figure 14 - displays the large options of green tea offered

Opening the selected tea, the website offers different photos, from a close-up of the leaves to the presentation of the final cup with the leaves inside. The picture are of high-quality, and the description of the tea is specific and detailed, explaining everything from the origin to the level of caffeine inside.

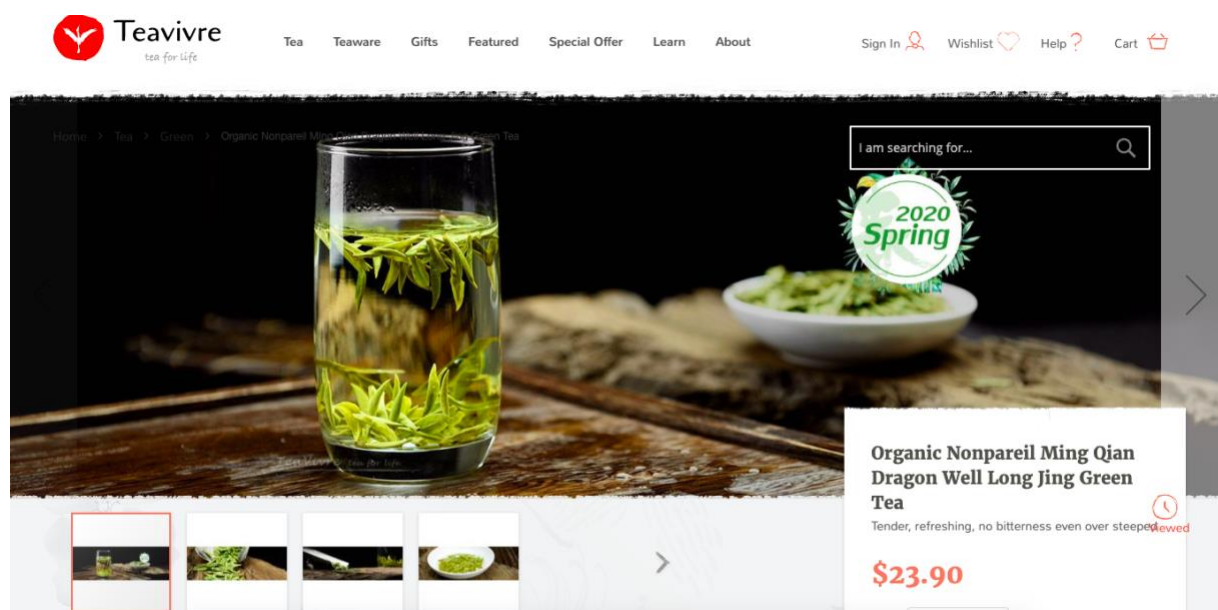


Figure 15: close up of a particular type of green tea

3.2 Coffee market

Coffee was born in the 17th century and is the first of the three major beverages in the world, along with cocoa and tea. Coffee for daily consumption is made with coffee beans and various cooking appliances.

Coffee is a plant of which there are several varieties. Rich in antioxidants, it has a stimulating effect on the nervous system. The coffee plant is an evergreen tree belonging to the Rubiaceae family, native to the highlands of Ethiopia in southwestern Africa. It can reach twelve meters in height but is kept lower (about three meters) to facilitate the harvest. There are about sixty varieties of coffee, but only twenty-five produce fruit with a commercial value. Among these are four types of coffee used to prepare the beverage:

- Arabica is the best-known variety (it represents $\frac{3}{4}$ of world production), among which the most famous is Moka. Originally from the Arabian Peninsula, this variety is grown today both in its places of origin and in other countries of Central and South America, on mountain soils rich in minerals (the higher the altitude, the better the organoleptic qualities of the roasted coffee bean);

- Robusta, a very popular coffee variety because the plant, as its name implies, is very resistant to diseases and can also be grown in the plain. It is native to the Congo but today it is cultivated in various countries;
- Liberica, grown mainly in Liberia and in the Ivory Coast. The seeds are large and pest resistant. Its quality, although the beans are fragrant, is inferior to that of Arabica and Robusta;
- Excelsa grows everywhere and is very resistant, provides a high yield and has a taste similar to that of Arabica.

According to the statistics of the International Coffee Organization (ICO), about 65% of the coffee circulating in the world market is Arabica and 35% is Robusta.

Coffee was brought out of Africa by Arabs in the 13th century. It was introduced to the Middle East, Europe and America in the 16th and 18th centuries. Currently, coffee, as the second largest beverage after tea, is grown in more than 50 countries in Asia, Africa, and Latin America, and is consumed by about one-third of the world's people.

The global coffee industry, represented by Europe and the United States, has experienced three waves and has entered a mature stage, while China's coffee industry is still small in scale and has considerable space.

The first wave started when Nestlé launched the instant coffee brand in 1938, which changed coffee from agricultural products to standardized products for the first time; the second wave started in the 1960s, and coffee began to move from fast food products to quality products, Starbucks reached its peak, and coffee was gradually refined; around 2003, when the third coffee wave emerged, people were seeking the ultimate experience and social welfare, and their sensitivity to prices was reduced.

3.2.1 Coffee market in China

With improved living standards and rising awareness of the culture of coffee, China's coffee bean market is on the rise. While coffee has been popular for 150 years in the West, it has recently emerged in China.

Compared with the 2000-year history of coffee cultivation in the world, Chinese beverage market has only a few hundred years of experience in coffee cultivation. Since the mid-2000s, coffee popularity in China is undeniable. China is best known as a tea-drinking country, but, in recent years, when it comes to emerging countries, has become one of the world's biggest consumer of coffee. The growth rate of coffee consumption in China is about 20% annually, more than 2% above the global growth rate, according to published coffee market analyses.¹¹⁰

Until the late 1990s, when Starbucks first entered the Chinese market, opening in the China World Trade Building in Beijing (Shanghai sees its first Starbucks one year later), the tea-centric culture of China was relatively untouched by Western coffee retailers. More specifically, the introduction of coffee in China reflects the new dominance of a Western presence that had previously been alien, and coffee itself serves as a display of social status and cosmopolitanism.

Coffee cultivation in China was introduced from Taiwan in 1884, and later in Yunnan, Hainan, Guangxi, Guangdong, Fujian, Sichuan and other places.

The main coffee producing province in China is Yunnan Province. More than 98% of green coffee beans in China come from Yunnan Province, over 100,000 tons of coffee are produced annually. In addition, China's imported coffee mainly comes from Indonesia, Malaysia, Italy, Vietnam and other countries.

¹¹⁰ Dong Xue, *Coffee getting popular in tea-drinking China*, in "CGTN", October 2019, <https://news.cgtn.com/news/2019-10-29/Coffee-getting-popular-in-tea-drinking-China-LbmEhxXzP2/index.html>, September 2020

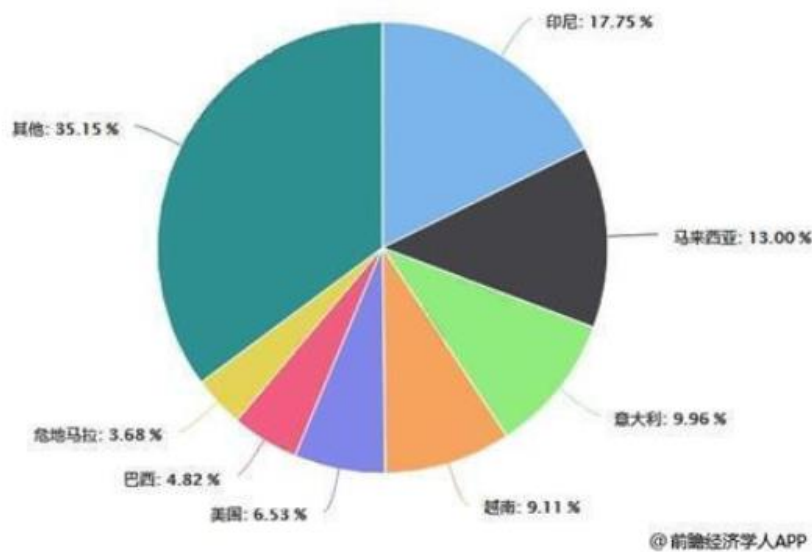


Table 8 - 中国咖啡进口主要来源国占比统计情况
 Statistics on the proportion of the main source countries of China's coffee imports ¹¹¹

In terms of imports, China imported 10571.2 tons of unroasted coffee in 2019, an increase of 22.6% year-on-year, and the import value was US\$27.13 million, an increase of 9.7% year-on-year.

From the perspective of global green coffee production, according to statistics, the production was 10.15 million tons in 2019, a year-on-year decrease of 0.6%.

According to the consumption pattern of coffee, it can be divided into instant coffee (Soluble Coffee) and freshly ground coffee (Roast & Ground Coffee). Among them, instant coffee is characterized by fast, simple and convenient brewing, and a high degree of product standardization, accounting for 72% in China. The main consumption channels include general

¹¹¹ 2019 Nián zhōngguó chá yè háng yè shì chǎng xiàn zhuàng jí fā zhǎn qū shì fēn xī “hù lián wǎng +” diǎn fù chuán tǒng mó shì dǎ kāi xīn shí dài 2019 年中国茶叶行业市场现状及发展趋势分析“互联网+”颠覆传统模式打开新时代 (Analysis of the market status and development trend of China's tea industry in 2019 "Internet + subverts the traditional model and opens a new era), in “Forward the Economist”, January 2018, <https://bg.qianzhan.com/report/detail/459/190219-50b4b42d.html>, September, 2020

supermarkets, large comprehensive supermarkets and e-commerce. Freshly ground coffee refers to the use of coffee beans, coffee powder, and coffee machine debugging coffee, which are suitable for customers who have a higher pursuit of coffee quality and taste, accounting for 18%. The main consumption channels are homes, offices, convenience stores and cafes.¹¹²

From the perspective of global green coffee consumption, according to statistics, global green coffee consumption was 10.16 million tons in 2019, a year-on-year increase of 0.7%. In 2018, China's consumption of instant coffee, freshly ground coffee, and ready-to-drink coffee accounted for 71.8%, 18.1%, and 10.1% of total coffee consumption, respectively. Although ready-to-drink coffee is currently lagging in share, with the diversification of coffee consumption and product differentiation, ready-to-drink coffee has the opportunity to gain a larger market share.

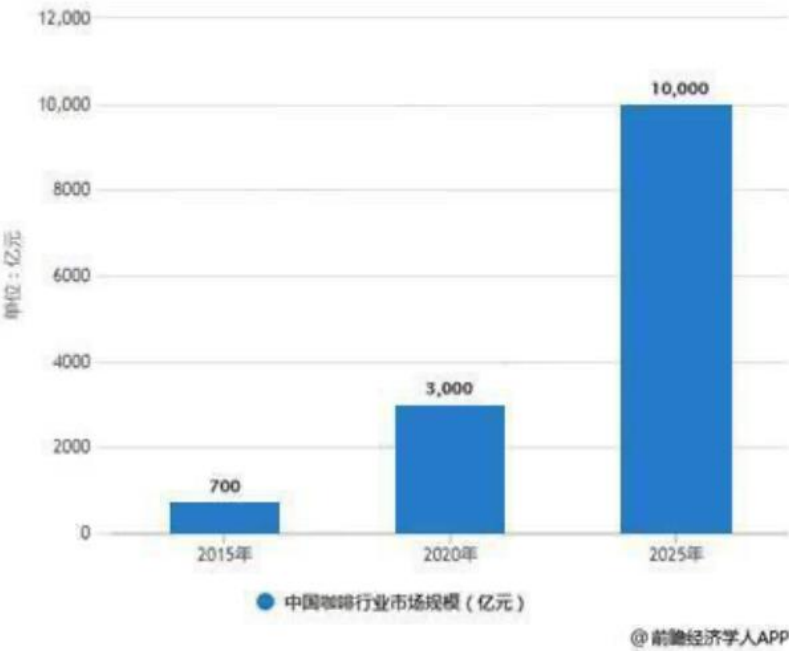
The demand for coffee in the Chinese market continues to grow. Compared with the large coffee consuming countries such as the United States, South Korea, and Japan, the average annual growth rate of coffee consumption in China has reached 26.59%.

China's per capita coffee intake is still at a low level, compared with developed nations. There are more than twelve trillion coffee markets worldwide, while China currently has just around seventy billion, which is far from the population ratio. According to statistics, the increase in per capita income will promote coffee consumption. Every 5% increase in national income will increase daily coffee consumption by 2%-3%. With the increase in national income and the gradual cultivation of consumers' coffee consumption habits, the potential market for coffee in China is huge.

Although the current consumption of coffee in China is relatively low, the coffee market has grown rapidly in recent years. According to statistics from the "Analysis Report on China's Coffee Industry Market Demand and Investment Planning" released by the Qianzhan Industry Research Institute, since 2018, the scale of China's coffee consumption may grow at a rate of 30% every year. In the upstream field, the high-end coffee industry chain in Yunnan, China has

¹¹² Zhāng Xīn 张鑫, *2020 Nián quánqiú jí zhōngguó kāfēi hángyè shìchǎng xiànzhuàng yǔ fāzhǎn qūshì fēnxī, shìchǎng xiāofèi fāngshì fā shēng zhuǎnbiàn 'tú'* 2020 年全球及中国咖啡行业市场现状与发展趋势分析·市场消费方式发生转变「图」(An analysis of the global and Chinese coffee industry market status and development trends in 2020, and changes in market consumption patterns), in “华经情报网”, April 2020, url.y.it/384qx, September 2020

been relatively mature, and the demand for green coffee beans, especially premium beans, has increased year by year.



数据来源：前瞻产业研究院整理

Table 9 - Statistics of annual coffee consumption per capita in major countries in the world in 2017. ¹¹³

From a brand perspective, the overall coffee industry is highly concentrated. Among them, the leaders in the instant coffee and ready-to-drink coffee industries are both Nestlé, accounting for 28.5% and 68% respectively; the current leader in freshly ground coffee is Starbucks, with a current market share of approximately 51%.

The Chinese coffee market has massive potential, especially in instant coffee, capsule coffee and coffee stores. Revenue in the coffee segment amounts to US\$11,653m in 2020.

¹¹³ 2019 Nián zhōngguó kāfēi hángyè shìchǎng xiànzhuàng jí fāzhǎn qiánjǐng fēnxī xiāofèi shēngjí +hùliánwǎng zībēn tuīdòng wàn yì shìchǎng guīmó” 2019 年中国咖啡行业市场现状及发展前景分析 消费升级+互联网资本推动万亿市场规模 (Analysis of China's coffee industry market status and development prospects in 2019 Consumption upgrade + Internet capital promotes trillion market scale, in “前瞻产业研究院”, May 27, 2019 <https://bg.qianzhan.com/report/detail/459/190527-85027059.html>, September 2020

The fierce competition in the coffee market will promote the rapid expansion of the coffee market. It is expected that by 2025, Chinese coffee market size will exceed one trillion yuan.

With estimates of market growth ranging between 5-9% per year, the Chinese market's largest segment is Instant Coffee with a market volume of US\$7,468m in 2019.

With the fast development of China, the pressure from work becomes more apparent. It is generated by a daily high pace of work and the changing in society. There is also an increasing need for consumption and people want to meet their demand. In big cities like Shanghai or Beijing, the fact is mostly present because of the high cost of living. They are somehow pushed to work more in order to be able to live comfortably. Also, coffee is linked to a wealthy drink compared to other beverages, beneficial to keep energy at work.

The main consumers are the population aged around 35 years old and over, even youngest people tend to adopt this consumption within the favorable impression for coffee. Much of coffee's success in China can be attributed to the millennial generation and to the overall demand for modern culture. There is an interest in developing and becoming part of the middle class, doing better than the parents. The rise in coffee consumption has coincided with an interest in "economic achievement" and the "adoption of Western style".

Coffee culture in Beijing and Shanghai fits the fast-paced cosmopolitan character of those cities. With coffee shops lined up across these populous streets, coffee has established itself as a trendy, Western luxury. Coffee has become a cultural icon in mainland China.

Through incorporating coffee into their day-to-day, Chinese individuals have been able to adopt aspects of Western culture.¹¹⁴

The number of the coffee bar in China becomes more and more important. Despite the high price of coffee in China (around 30 Yuan), Chinese are becoming more and more dependent.

In addition, people are not enjoying only the coffee itself, but also the context surrounding this trend that came from western countries. Coffee's consumption appears as an image of elegance and fashion. It is a way to experience another new culture, another

¹¹⁴ REBECCA Harbeck, *The evolution of China's Coffee Industry*, in "US-CHINA today", June 2019, <https://uschinatoday.org/features/2019/06/28/the-evolution-of-chinas-coffee-industry/>, September 2020

environment. For these reasons, although the average price is three times more expensive than another drinks, the purchase worth it. However, with the development of this market, coffee's quality becomes much better than before within the growth of Chinese consumers' expectation.

While these numbers only reflect part of the image, they demonstrate the rise of the middle class and an overall better standard of living. Moreover, improved quality and innovation that foreign brands promise, they are willing to pay premium prices for them.¹¹⁵

*The Atlantic*¹¹⁶ argues coffee has been used to signal a certain lifestyle and status in mainland China. Though the prices may appear perplexing, the consumption of high-priced coffee reflects the same motivations behind buying luxury, designer goods. Though the per capita income in the U.S. is five times higher than that in China, coffee prices in China are even more expensive. For coffee consumers in China, Starbucks and other Western coffee brands enable them to show off their wealth and good taste.

In conclusion, China has become a new force in the global supply of coffee beans, with steady growth, global coffee imports greater than exports, and the imbalance between supply and demand, which has become more and more serious. Therefore, the demand for international coffee beans has remained high. As one of the world's high-quality coffee beans producing areas, China's annual export volume of coffee beans is also increasing year by year, making China naturally a new force in the global coffee bean supply. At present, Yunnan Province has become a supplier of foreign coffee brand companies such as Nestlé and Starbucks. In 2017, Yunnan Province ranked first in China's coffee export rankings with an export volume of 60,700 tons, accounting for 57.9% of the country's coffee exports. Coffee beans have also become the second largest export cash crop in Yunnan Province except tobacco, which has greatly promoted the local economic development.

¹¹⁵ *Coffee market China is growing larger—coffee consumption and imports China*, in “Direct China Chamber of Commerce”, September 17, 2020, <https://www.dccchina.org/news/coffee-market-china-is-growing-larger-coffee-consumption-imports-opportunities-in-china/#:~:text=China%20Coffee%20Market%20Facts%20and%20Figures&text=China%20continues%20to%20be%20one,US%247%2C468m%20in%202019>, September, 2020

¹¹⁶ <https://www.theatlantic.com/world/>, September 2020

3.2.2 Prospective for the coffee industry

The exponential growth in China's emerging middle class, which is on track to expand from the current 430 million to 780 million by 2025, is driving many of these changes in the Chinese coffee industry. The consumers of the younger generation is known, among others, as the driving force of consumption. Compelled by their surprising levels of income, open-mindedness to western culture and digital naturalness, China's overall consumption growth is projected to account for more than a quarter 2030. A balanced lifestyle is a high priority for the Chinese middle class, and this is seen as the definition of a good life. There is a significant increase in the consumption of coffee by women, especially in cafes, restaurants and bars. That is a magnificent improvement, and there is a common saying in China regarding women's role: "women hold up half of the sky". But Chinese women hold up more than a half of the sky, relating to coffee consumption in China,

At present, China's coffee industry is at a preliminary stage of development, and there is still a lot of room for development in the future. In recent years, e-commerce and some catering industry giants have also begun to join the market, their participation will undoubtedly make Chinese coffee market more competitive. For example, Amazon China launched an online cafe in August 2015; Coca-Cola launched its first espresso drink "Qiaoya" after acquiring China's Green Mountain Coffee in February 2014; Master Kong and Starbucks launched a joint venture in March 2015. More companies will join the coffee market in the future, bringing new competition and challenges to the Chinese coffee market.

3.2.3 Comparison between a mass market and a niche market coffee website

For the purpose of this comparison, Nestlé has been chosen a representative of a mass market coffee website, because it is the largest multinational active in the food sector in the world.

For the niche market website, the Black Ivory Coffee company will be analyzed, as it sells one of the most expensive and hard to find coffees in the world.

NESTLÉ¹¹⁷

At present, China's coffee market is in a battle for competition. Different Western coffee companies have entered the Chinese market, such as Britain's Costa Coffee, Canada's Tim Horton's and the America's Dunkin Donuts.

In the field of instant coffee, domestic products of foreign brands have a monopoly in the low-end market segment, with coffee giants such as Nestlé and Maxwell having a market share of over 80%.

In 2018, the scale of China's instant coffee market was about 70 billion yuan, of which Nescafé ranked first with a market share of 28.5%, which was much higher than the second with 5.7%. In the ready-to-drink coffee market in 2018, the Swiss Nestlé steadily ranked first with a market share of 68.3%, and its market share was about fourteen times that of the second-place Beijing Huiyuan.

The history of this brand begins in 1866, with the opening of the first condensed milk factory in Switzerland. In 1905, Nestlé merged with the Anglo-Swiss Condensed Milk Company, starting a dizzying growth that later involved nations of the caliber of the United States, Great Britain, Germany and Spain. During the First World War, demand for dairy products increased, and Nestlé's production doubled before the end of the conflict. At the beginning of the Second World War, new factories were built in many developing countries in Latin America. The war itself, paradoxically, led to the invention of a new, hugely successful product, Nescafé, used primarily by the American army and then spread throughout the world. With the birth of the global market, dated in the mid-90s, Nestlé entered important emerging markets. In the following years important new acquisitions took place: San Pellegrino in 1997, Spiller Petfoods in 1998, Chef America, Ralston Purina and Dreyer's in 2002 and finally Gerber in 2007.

Today, *Nescafé* is the favorite coffee brand in the world, enjoyed in over 180 countries worldwide. With over 80 years of experience in picking, roasting and blending the coffee, it is no wonder that over 5,500 cups of *Nescafé* coffee are drunk every second. For all tastes and occasions, there are many varieties of *Nescafé*. From *Nescafé* Original which has the unmistakable taste to *Nescafé Dolce Gusto*, an easy-to-use pod system designed to allow consumers to enjoy coffee shop quality at home.

¹¹⁷ <https://www.nestle.com/brands/coffee>, September 2020

Opening the website of Nestlé, the first peculiarity that is noticed, is that a wide range of products is sold, from chocolate to coffee.

The website also presents different initiatives of the company, for example the “Sustainable packaging journey” or the “Growing a plant-based future”.¹¹⁸

Choosing the coffee section, the Nestlé website redirect the customer to one of their brands: Nescafé. The effort that the company has made to make this brand accessible to everyone is evident.




Figure 16 - first page of the Nescafé website.¹¹⁹

It can be noticed that consumers have a large variety of choice: from coffee beans to soluble coffee, proposed in different variants (normal, decaf, coming from different countries, espresso, cappuccino, etc.).

¹¹⁸ <https://www.nestle.com/>, September 2020

¹¹⁹ <https://www.nescafe.com/>, September 2020

Gold Classic Mixes Ready to Drink Azera




NESCAFÉ GOLD

★★★★★

We blend Arabica and a handful of Robusta beans together for a rich, yet...

Compare products →




NESCAFÉ GOLD Decaf

★★★★★

All the qualities of the coffee you love, without the caffeine. We safely...

Compare products →




NESCAFÉ GOLD Crema

★★★★★

NESCAFÉ Gold Blend Crema is carefully crafted to create a more refined and...

Compare products →



NESCAFÉ GOLD Origins Colombia


★★★★★

We lightly roast 100% Arabica beans from the finest coffee regions in South...

Compare products →

↑

Gold Classic Mixes Ready to Drink Azera




NESCAFÉ GOLD Origins Uganda-Kenya

★★★★★

Enjoy the balanced blend of spicy and earthy notes in NESCAFÉ GOLD ORIGINS...

Compare products →




NESCAFÉ GOLD Espresso

★★★★★

Our NESCAFÉ Espresso is made from 100% Arabica beans grown in the finest...

Compare products →




NESCAFÉ GOLD Cappuccino

★★★★★

The extra creamy NESCAFÉ Cappuccino range lets you bring the real coffee-shop...

Compare products →



NESCAFÉ GOLD Latte

★★★★★

Enjoy a real coffee shop experience in the comfort of your home with NESCAFÉ...

Compare products →

↑

Figure 17 - product range of Nescafé

It is clear that Nestlé is a mass market brand. The company offers products that every type of consumer will appreciate, because they are of standard quality, easily available and the average price remains low.

THE BLACK IVORY COFFEE COMPANY ¹²⁰

The most expensive coffee in the world (€ 1.600 / kg) comes from Thailand, specifically in Chiang Saen a city on the border between Laos and Cambodia, where elephants are accustomed to produce this coffee. The pachyderms eat the berries, which once digested and expelled by the animals are washed and then ground. The resulting powder has lost the typical acidity of the grain. It is usually little used in the classic blends. Where present, it would give sweet notes that turn towards chocolate. To obtain a kilo of Black Ivory, elephants have to ingest thirty-three kilograms of berries mixed with bananas and rice, so they can only produce 150 kg per year.

From the presentation of the company on the website, it is evident that the company aims to offer their coffee to customers that are really interested in the coffee production, taste and origin.

In their overall marketing efforts, all kinds of businesses adequately use niche marketing tactics. Particularly for smaller businesses with restricted resources and goods or services that are geared towards a specific segment of the population, it is a suitable strategy.

In this case, the first page of the website transmits a sense of knowledge and experienced people behind the scenes, it immediately underlines that this particular coffee is produced with the help of elephants. The website is characterized by the black color, which gives a sense of high quality and refinement.

Being this coffee of a niche type, obviously the prices are higher than the ones of other brands, such as Starbucks and Nestlé, because there is more study and research behind the production, this is the reason why customers are available to pay more, in order to receive a higher quality product.

¹²⁰ <https://blackivorycoffee.com/>, September, 2020

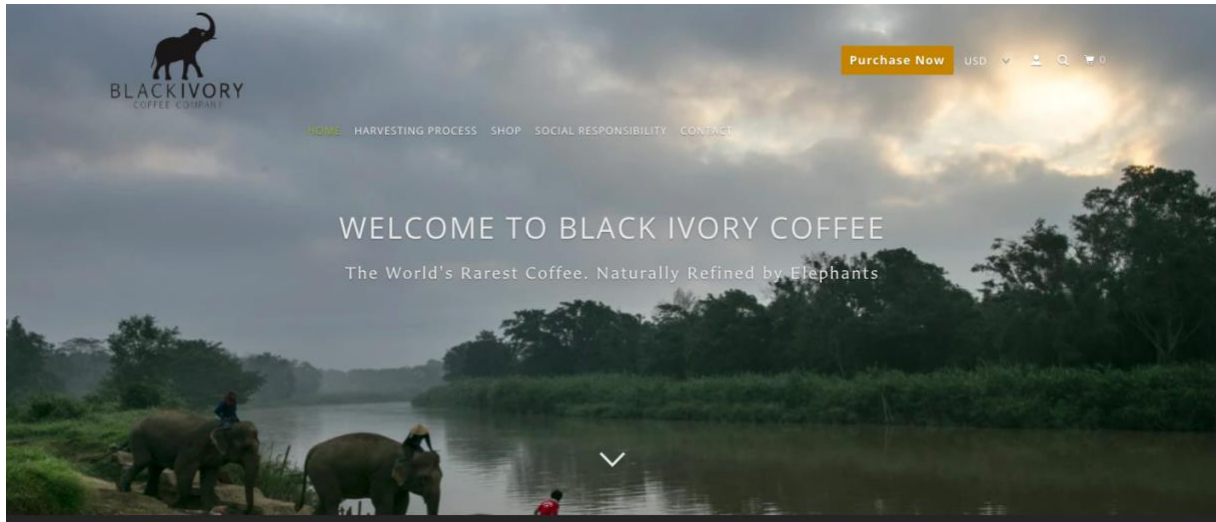


Figure 18 - shows the first page of Teavivre

The website only offers two types of coffee and the compatible pods for the Nespresso machine. One of the major features of niche marketing is to concentrate the resources on a limited product. This is exactly what Teavivre is doing: offering a limited number of products, which are special and unique.

The relative specificity of a product is influenced by the number of products with a similar market position. The product characteristics would generate a substantially higher degree of relative specificity when comparing two complementary goods, one targeted at the mainstream market and the other at the niche market. At the same time, a niche market will also have a smaller product range than the respective mass market.

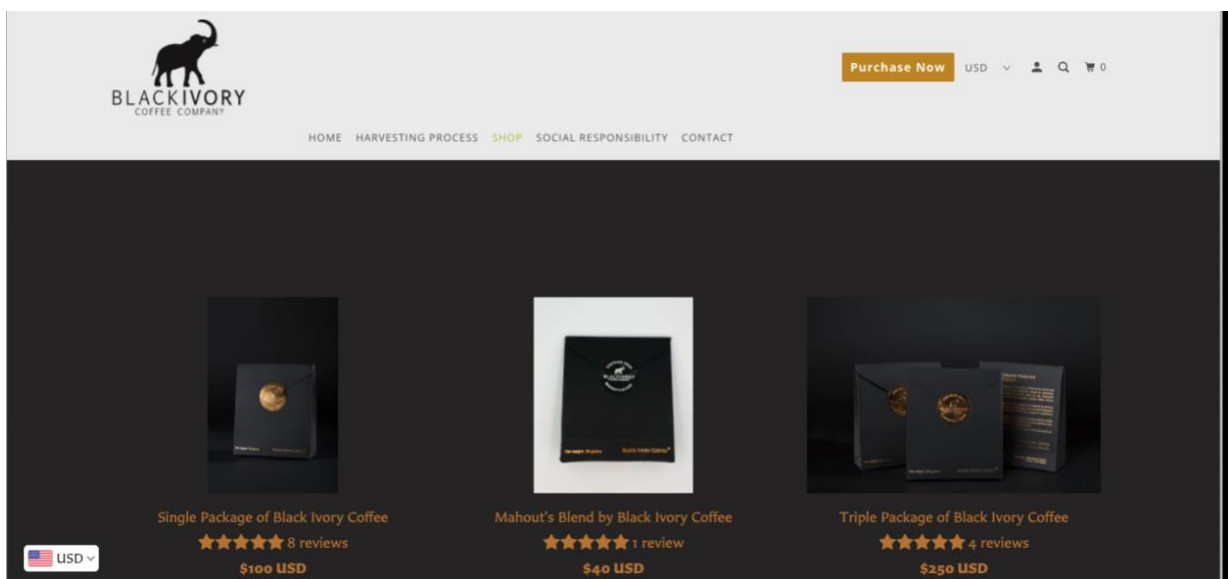


Figure 19 - represents the limited variety of coffee types offered by the company

The Black Ivory Coffee company has evolved to better serve their customers, concentrating on relationship marketing, so that other companies cannot easily imitate them. Anyway, they've also tried to stay true to the roots and the community that got them started.

Conclusion

The main aim of this study was to provide insights into the niche marketing strategy, analyzing every aspect of this business method.

The decision to talk about niche marketing in depth, was dictated by the fact that during my university years I had to study this business method for several exams, but I realized that papers and online material were never enough. The aim of my thesis was, therefore, to collect all the material available, so as to carry out a more in-depth analysis.

The present research has tried to answer to some questions: what is precisely a niche market? What characteristics should have a market in order to be defined a “niche”? what are the best strategies applicable to this specific marketing method, internationally and in China?

Today, our culture is increasingly the product of small trends representing changing habits and decisions. They are often hard to identify. Very subtle changes will cause dramatic changes in the shape of our globe and the character of our society.

The findings show that managers in niche companies are both product- and customer oriented at the same time. They are product oriented by concentrating most of their energies on continuously offering products of higher quality or products developed according to a particular concept. At the same time, managers tend to be customer oriented, since they are genuinely committed to their few and long-term customers or partners, and they rely on their customers for market knowledge which they use to adapt their products to specific market needs.

In brief, this review reveals that niche marketing can be beneficial for some firms in terms of increased profits, higher prices, higher growth, increased market shares and increased competitiveness. In addition, it is possible to apply niche marketing to different contexts, such as a variety of sectors, firms of various sizes, domestic and foreign markets and new and established markets. Further, successful niche marketing appears to require the use of specialization, relationship marketing, developing internal dynamic capabilities and building protective barriers. Finally, the potential problem areas of pursuing niche marketing were linked to fear of losing control of distribution channel, declining niche demand, attracting large competitors and managing the sustainability of the niche.

I further conclude that niche marketing is an applied strategy similar to segmenting, which can be used at both the competitive strategy level and the marketing decision-making level. It can thus benefit from much of the general strategy literature. In addition, segment and niche are strongly overlapping concepts, although some nuances in perceptions can be detected,

particularly in terms of size of markets and firms, number of actors, the degree of specialization and use of relationship marketing. Furthermore, segment and niche are identified differently as are their expansion processes to some extent.

Future Development of Niche Marketing

These niche marketers are actively eating up sections of mainstream markets. In comparison to what was one a simple mass market, new demands, evolving customer motivations and further individualization both business to business and business to consumer marketing, have created a multitude of diverse and fragmented markets. This fragmented market is primarily influenced by technology. In order to keep and grow their presently owned markets, these emerging markets need a new non-traditional marketing approach from these larger corporations. As a result, doing faster and better might not be adequate and, instead, it will be important for businesses to implement new marketing ideas and practices.

To fulfil the demands of these newly emerging markets requires, amongst others, flexibility and differentiation. In today's fragmented market companies have to adapt their goods and marketing mix to meet the different tastes of the customers. In niche marketing, the emphasis is on the customer and on profit. Instead of pursuing the whole market (mass marketing) or large segments of the market, these firms target segments within segments. This is true for small firms in particular due to their often limited resources.

Niche marketing could be viewed as the implementation of the marketing concept, in that niche marketing requires a customer/market-oriented organization which is customer focused, competitor oriented, responsive, anticipative and functions in balance with the market and their internal resources; in pursuit of long term relationships and sustainable profitability.

The findings suggest that niche firms expand internationally by developing and exploiting long-term relationships with downstream channel partners, such as importers. Furthermore, the strategic directions for expansion are based on penetration, product development, and market development.

Through the analysis of the characteristics of the niche market in this article, we have concluded that the development of a niche strategy should be divided into three steps.

(1) Position a niche product that can be continuously updated and upgraded

Generally speaking, an ideal product, will be invincible in the market competition. However, in the long run, the number one position will be surpassed one day, and the only

identity is a unique approach. If appropriate barriers are established, such as intellectual property barriers, so that competitors cannot enter, then this unique will never be wiped out.

(2) Positioning a niche consumer market with strong individual needs

The niche market is generally a market that is not fully served, and what is not fully satisfied is often the personalized needs of consumers. Due to the strong personalized needs of certain consumer groups and their strong stickiness, a niche market that meets these personalized needs must be created. The positioning of the niche market itself is to be specific to a certain type of personalized needs to create their own niche products.

(3) Supporting a series of niche marketing strategies

Carry out niche marketing strategies through different channels such as product differentiation, service differentiation, brand differentiation, etc., through word of mouth, diversified sales channels and other niche marketing methods. Build competitive barriers through technological innovation, stick to customer groups by increasing product upgrade frequency, and establish effective and strong customer relationships. These are the main means for niche companies to defend their market position.

It should be noted that niche marketing is not omnipotent. Improper use can cause the growth of short-term profits, but it may lead to the reduction or even exhaustion of long-term profits of enterprises. Therefore, enterprises must enhance the management and monitoring of the whole process and pay attention to customer feedback. The key of niche marketing is to use the differentiation strategy to penetrate the niche market. Therefore, small and medium-sized businesses must constantly adjust according to changing market dynamics and customer demand.

For all the above reasons, in my opinion, niche marketing will continue to grow and evolve, finding, for sure, new approaches, techniques and strategies.

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