DEFINING AND DEVELOPING NICHE MARKETS:
STRATEGIC OPPORTUNITIES FOR CARIBBEAN BUSINESSES

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Unique competencies, capabilities, and resources enable Caribbean firms to develop and sustain a strategic competitive advantage in some global industries. Major technological and economic changes are generating numerous opportunities for the future of many small Caribbean businesses. One of the most important changes for small businesses is the fragmentation throughout society which is creating a fundamental shift in how customers are being served (Happoienu, 1990). The shift entails moving from mass marketing to mass customization and in the process, the rise of multiple heterogeneous niche markets to the extent of one individual in a niche (Pine, 1993). An understanding of creating, developing, and securing niche markets is an important initial step for small business entrepreneurs towards establishing a strategic position in the global market place.

This paper examines the concept of niche markets from three different but related and overlapping perspectives — marketing, population ecology, and industrial organization. The three perspectives provide a theoretical foundation for a Caribbean approach to defining and developing niche markets within the broader global environment. The paper begins with a brief review of Porter's framework for Determinants of National Advantage and generic strategies to provide conceptual tools for analyzing specific contexts of Caribbean firm competition. Then, a discussion examines niche markets from three perspectives and relates each one to the specific
conditions confronting different contexts within different Caribbean communities. Last, general guidelines address the targeting of niche markets.

Determinants of National Advantage

First, Porter’s Determinants of National Advantage, also known as Porter’s Diamond, is a framework built on the premise that the home country of a firm endows it with important resources to compete on a global basis (Porter, 1990). The four important components of the framework are factors of production, related and supporting industries, demand conditions and firm strategy, structure, and rivalry. In the first dimension, the factors of production include the inputs required for competing in any industry, such as labor, land, capital, natural resources, and economic infrastructure—(e.g. communication system, transportation network, public administrative support, etc.). The factors of production can be subdivided into basic, advanced, and specialized. While the basic factors are pre-existing from the natural environment, governments have an important role in developing advanced and specialized factors.

In the second dimension, related and supporting industries refer to the supporting community of firms that provide resources to promote the development of the firm within a particular industry. For example, restaurants may be supported by hotels, cultural festivals, entertainment establishments, cruise lines, airlines, and conference activities. Thus, related and supporting industries create synergies in the community to increase the national competitive position of a firm.

In the third dimension, demand conditions address the nature and size of the customer base in the firm’s home country. A firm develops market experience with
domestic buyers that can be leveraged beyond national boundaries into other locations. In order to successfully leverage the knowledge and capabilities, it is important to address differences of context in new markets. But the initial lessons provide an important foundation to enter into the global market.

In the final dimension of the framework, firm strategy, structure, and rivalry focus on the business practices and management approaches that are particular to a national context. Some management practices may be transferable across national boundaries. Within different countries, and during particular time periods, firms may adopt particular ways of organizing to compete. Examples include the use of total quality management, just in time inventory systems, flexible production, supply chain management, virtual networks, and strategic alliance partnerships. At the same time, firms may choose from a variety of generic business-level firm strategies to compete with in the market place.

Each component of Porter's Determinants of National Advantage influences the other components in a reciprocal fashion. The framework provides one means of analyzing the competitive context of the firm within its country of origin. The analysis provides direction for channeling Caribbean firms toward particular niche markets in the international business. Competing in the global market place also requires a strategic choice concerning the question of how to compete or which type of business strategy to use? This issue is addressed in the next section.

Generic Business Strategies

Firm strategy refers to the intentional employment of internal capabilities and resources of the organization to fulfill its vision. Small firms often struggle with many
challenges, such as lack of financial and marketing resources, and in the process, neglect to leverage some important strengths, such as the ability to be innovative, flexible, and quick. Furthermore, established dominant competitors often discourage and prevent young emerging firms from establishing a foothold in the market place. What is important for small firms to understand is that they do not need to compete on the same basis as the large firms. Also, for industry with a diversity of activities, small businesses are able to reduce or reverse the profit advantages of larger rivals, except in situations when the market leaders are able to maintain their edge regardless of activity mix (Bradburd & Ross, 1989).

An industry may encompass firms of different sizes and a variety of business level strategies may be viable at the same time. The choice of a generic strategy helps to direct the firm on how to compete in the industry. The types of business level generic strategies include low cost, differentiation, focussed low cost, focussed differentiation, and integrated low cost/differentiation (Porter, 1980). For the purpose of targeting niche markets, firms need to employ a focussed strategy which entails “...is the exploitation of a narrow target’s differences from the balance of the industry (Porter, 1980: 15).”

A focussed low cost or focussed differentiation strategy, implicitly address needs of a niche market. Firms with a broad market strategy orientation often ignore small narrow segments of the market because the costs outweigh the benefits. Thus, certain niche markets remain open for small businesses to thrive in and prosper.
Three Perspectives of Niche Markets

Given the framework of the Determinants of National Advantage in each Caribbean country and an approach of how to compete with a generic focused strategy, small Caribbean firms need to link their capabilities and resources to environmental opportunities that can be identified as niche markets. The concept of niche markets is defined and developed differently within the different perspectives of marketing, population ecology, and industrial organization. Each perspective is useful for a more comprehensive understanding of a multifaceted phenomenon.

a. Niche Markets to Niche Marketing

First, niche markets from the perspective of marketing often shifts from a noun or a thing to a verb or an action or a task. In other words, niche markets becomes niche marketing which “is the process of developing finer and finer market segments (Barone, 1984: 56).” According to Barone, there are two ways to identify and define niche markets. One is for firms to analyze the magnitude and effects of a trend or a developing concern among existing and potential buyers. The second one is through continuous monitoring of customers where the task is to further subdivide the group by identifying specific sub-group characteristics. For example, among cruise line tourists there is a shift towards increasing number of young families and singles. Within the sub-group of young families, there are ones with one child, young children, and older children, single parent versus two-parent families, new and old couples, and clans. Each sub-group may have different needs and interests when visiting the Caribbean. The issue for small Caribbean firms is how to serve a niche market within a more general market and provide a higher
level of customization and/or quality in delivering that product or service than other firms that are currently serving the broad market of cruise line tourists.

Earlier approaches to identifying niche markets generally employed models based on socio-economic groups. But Marti (1987) advocates for context marketing to take advantage of the increasing diversity and fragmentation of the marketplace. Rather than focusing on demographic variables, context marketing employs information from analyzing actual behavior, what people actually do. While sub-contexts exist, six major contexts were identified as wellness (enhancement of mental and physical conditions), awayness (escape from daily routines), Euroness (identification with continental culture), traditionalism (established values), expertise (knowledge focus), and home centeredness (private environment). A seventh context emerged as concernedness that relates to concern for people and environment apart from the self. Although Marti’s work is not centered in the Caribbean, the underlying idea of examining the global customers’ context would be an alternative approach in the process of creating, developing, and sustaining a competitive position in a niche market.

In another approach, MacMillan & McGrath (1997) recommend mapping the customer’s consumption chain to identify means of specializing and differentiating. To map a consumption chain, managers examine the initial awareness of the product and services, access points to the products and services, selection process, methods of ordering and buying, delivery of product or services, transaction process at delivery point, installation of product, payment method, storage, product relocation, product use, movement of product, policies for return and exchange, and product disposal. Each point
along the consumption chain lies an opportunity to identify and develop means for firms to create a niche in the market.

A combined approach to niche marketing is important to successfully compete. Stanton & Linneman (1990) outlines five specific areas where a firm may differentiate itself: product or service, customer service, channel of distribution, communications, and prices. They argue that “you need not travel far afield to find the mother lode – an unexplored market niche (Linneman & Stanton, 1992:43).” Thus, they argue for firms to generate relevant specialized marketing capabilities and resources for each of the areas to develop a niche market.

From the marketing perspective, niche markets become an active enterprise task that focuses on the functions, needs, and wants of the buyers. The main task is to align the firm’s capabilities and resources in a specialized manner to deliver products and services that are not met in the broader market place. As an action task for Caribbean firms to engage in niche marketing, the starting point is an intimate knowledge of their customer’s context and a in depth understanding of their customer’s consumption chain. These provide critical lessons for Caribbean firms in the process of developing the necessary capabilities and resources to differentiate in five important areas of marketing.

b. Population Ecology

Population ecology is part of a body of knowledge known as institutional theory. Over time, organizational populations evolve from the beginning with a few organizations that grows rapidly in number and then declines or stabilizes as the population matures. This pattern in the evolution of organization populations has been observed in newspapers, banks, and railroads (Carroll, 1984; Klepper & Graddy, 1990).
In the evolution process of organizational populations, different organizational forms arise that are identified as generalists and specialists. The relevance of evolutionary patterns of organizational population from theoretical developments in population ecology to Caribbean firms lies in the rise of specialist organizations.

A number of issues are important for the Caribbean context concerning specialist organizations. First, specialist organizations tend to be small in size. Second, the growth of specialist organizations has been linked to important renewal of stagnant industries because the role of specialist organizations is identified as change agents (Beesley & Hamilton, 1984). The particular formal organizational structure, pattern of activities, and normative mode of operating in specialist organizations have a degree of flexibility and innovativeness not commonly found to the same extent in dominant generalist organizations. Third, specialist organizations require a narrower range of environmental resources for survival than generalist organizations (Freeman & Hannan, 1983; Carroll, 1985). Swaminathan (1995) identified four important processes that contributed to the proliferation of farm wineries that are specialist organizations in the US wine industry. They included density dependence in founding rates, niche formation through changes in consumer preferences, resource partitioning, and direct institutional support. Given these various issues and research findings from population ecology, Caribbean firms have opportunities to thrive as specialist organizations when they go beyond their national borders because within the domestic context, specialist are able to thrive within particular resource spaces apart from that of generalist organizations.

To relate on the above issues to Caribbean organizations, some specific thoughts are as follow. The majority of Caribbean firms tend to be small relative to many
multinationals. Acknowledging and leveraging the strengths of being small is critical to
overcoming challenges that seem formidable when a Caribbean firm is compared to large
multinationals in the global business arena. While large firms dominate mature
industries, Caribbean firms need to enter from the position of a change agent with
innovative products and services. Many under served market segments can be addressed
by specialist organizations. Since specialist organizations require fewer resources for
survival, Caribbean firms may survive, and potentially grow successfully through
learning in early entrepreneurial stages, with minimal support from the environment.
Rather than planning elaborate large public infrastructure support systems, governments
could develop specific small and medium sized business support programs to promote the
growth of small or micro-sized local businesses.

From Swaminathan’s work, the idea of density dependence in founding rates
refers to the rise then fall with increasing levels of form-specific density which means
more organizations are started then the number of new start ups decrease but an
increasing number of firms survive within the particular industry. Hence, Caribbean
firms may identify new industries or renewals of mature industries to enter into by
observing and learning from other new entrants. While the existence of generalist
organizations may create certain barriers, competing Caribbean specialist organizations
may still be able to establish a niche.

New niches arise as customers change their preferences. Established
organizations may be able to influence changes in their customers’ tastes but are not able
to completely control or predict changing habits and tastes. Caribbean specialist
organizations have resources available to enter into newly formed niches that generalist
organizations may not be able to access. Related to this issue is that of resource partitioning. According to Carroll’s (1985) analysis of newspaper populations, the resource partitioning model predicts that as market concentration increases, the death rate of generalist organizations increases but the death rate of specialist decreases. The explanation for this phenomenon is generalists and specialists operate in distinct resources spaces in a concentrated market but both rely on a common resource base in an unconcentrated market.

Within the tourism industry, specialist organizations need not competitively position directly with generalists. Major hotel chains may cater to large tourist groups but smaller hospitality lodging establishments could serve off-the-beaten track travelers or local business travelers who seek or prefer a more “authentic” local experience. Input resources for specialist hospitality establishments may be substantially less than that required for a generalist hotel franchise. Also, supplies for each type of organizations tend to come from different sources. Thus, specialist organizations may work with a network of other local businesses such as local food markets, tour guides, and transportation providers.

The last process related to the rise of specialist organizations as described by Swaminathan refers to institutional support. “In general, a supportive institutional environment may signify an underlying acceptance of locally based specialist organizations (Swaminathan, 1995: 661).” The political environment for Caribbean firms is critical to their ability to survive in the economic environment. Governments play an important role by establishing the necessary policies and programs to create a sympathetic institutional environment specifically for specialist organizations. Public
institutional support provides specialist organizations with a recognized level of legitimacy that facilitates their ability to access resources in the environment (Delacroix & Rao, 1994).

Overall, population ecology provides a broad overarching perspective for Caribbean firms and their potential to develop as specialist organizations. The characteristics of specialists as small organizations, role of specialists as industry change agents, and evolutionary processes of specialist organizations allow Caribbean organizations to grow and thrive over time in the global market place.

c. **Industrial Organization**

Industrial organization is a rich body of research as a branch of economics. Due to the limitation of space, only a few major ideas are drawn from industrial organization research to examine competition of Caribbean firms. One of the underlying premises is that industry performance is strongly a function of a dynamic competitive market that is developed through interactions between demand and supply conditions (Shepherd, 1990). Competitive market conditions have low market concentration levels in the industry structure of less than 60% by the four largest firms. The life cycle approach of products and industry provide a temporal approach to understanding changes in industry structures and the external environment for firm strategies (Ring & Swan, 1979).

Wasson (1974) developed the seminal conceptualization of product life cycles that are divided into four stages to describe the development of industries over time based upon sales. The four stages of the product life cycle (PLC) are introduction, growth, maturity, and decline. New industries are spawned from innovations with niche markets being carved out as fragments or loose collections of initial customers. In the
introductory stage, few firms exist in the new niche markets of the industry and market development is an important task. As the innovation becomes increasingly accepted in the market place, niche markets grow and become more mainstream as the customer base broadens. The industry shifts to a growth stage with increasing demand and increasing number of new firms entering into the industry. The main task for firms is to have sufficient capacity to keep up with demand. Late entrants into the industry may create new niche markets. But they have to establish niche markets apart from the dominance of existing firms. Then as the market becomes saturated, the PLC shifts from growth to maturity that involves a shakeout of firms in the industry. Niche markets may survive, experience an absorption into the broader market, or disappear from the industry. Regardless of size, firms that are unable to remain competitive exit the industry.

Eventually, the industry reaches a decline stage where more firms exit and the industry itself dies. Throughout the PLC, industry structure generally moves from low to high concentration with high concentration where existing firms have increasingly larger market share (Shepherd, 1990). Within this general framework, it is important to recognize that different industries have different life cycles but the stages are relatively comparable. Also, industries may be rejuvenated with subsequent generations of innovative products. The different stages of the PLC provide important contingency variables for developing competitive firm strategies (Hambrick & Lei, 1985). Thus, PLCs for individual industries may differ on their specific patterns of development but share general characteristics with other industries.

An important aspect of PLCs is their location of development and later diffusion beyond national boundaries. Although many PLCs have a home country origin with
particular determinants of national advantage as described by Porter above, global diffusion relocates PLCs and provides renewal for PLCs in different locations. Therefore, it is possible for an industry to be in different stages of the PLCs simultaneously in different geographical market locations.

For Caribbean firms, the diffusion of innovations with different life stages existing at the same time in multiple locations provides important learning opportunities. New locations provide opportunities for the development of niche markets. Caribbean firms may become innovators or adopt innovations from different locations. Both involve a process of learning and engaging in strategic alliances to leverage the necessary market power. As innovators, Caribbean firms need to develop new products that require the creation of knowledge and expertise internally within their organizations. In this role, Caribbean firms are developers of new niche markets. Alternatively, Caribbean firms need to look externally to learn from others within an industry and possibly gain access to innovations through various strategic alliance partnerships. In this alternative role, Caribbean firms may be entering into established niche markets. Thus, the importance of developing a learning organization (Senge, 1990) also applies to the competitive viability of Caribbean firms in the future.

Conclusion

Understanding niche markets from the three perspectives of marketing, population ecology, and industrial organization allows Caribbean firms to create, develop, and sustain a competitive advantage in the global market place. From the marketing perspective, Caribbean firms require a proactive approach with the task of niche
marketing. From the population ecology perspective, Caribbean firms need to develop as specialist organizations to partition the resource space in creating a niche within the environment. Institutional support from government provide important legitimacy that enable Caribbean specialist organizations to access resources from the external environment. From the industrial organization perspective, Caribbean firms as learning organizations in different stages of the PLC enable the development of niche markets with innovations or entering into niche markets with innovations from different locations. Each of the three perspectives contributes different levels of analysis with overlapping concerns for niche markets.
BIBLIOGRAPHY


