



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**PRACTICES AND CHALLENGES OF MARKET  
SEGMENTATION: THE CASE OF SHOE PRODUCERS AT  
ETHIO-INTERNATIONAL FOOTWEAR CLUSTER  
COOPERATIVE SOCIETY**

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**NOVEMBER, 2014  
DDIS ABABA, ETHIOPIA**

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**ADDIS ABABA, ETHIOPIA**

**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
FACULTY OF BUSINESS**

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## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Tiruneh Legesse. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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**November, 2014**

## ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor

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**November, 2014**

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

- BSO----Business Support Organization
- COMESA----Common Market for Eastern and Southern Africa
- DBE-----Development Bank of Ethiopia
- EIFCCOS.....Ethio-International Footwear Cluster Cooperative Society
- GTP---Growth and Transformation Plan
- IFAS-----Institute of Food and Agricultural Science
- LIDI----Leather Industry Development Institute
- MoFED----Ministry of Finance and Economic Development
- MoI-----Ministry of Industry
- MoT-----Ministry of Trade
- SMEs-----Small and Micro Enterprises
- SPSS---Statistical Analysis for Social Sciences
- UN---- United Nations
- UNDP----United Nations Development Program
- UNIDO----United Nations Industry Development Organization
- USAID.....United States Aid for International Development
- WTO-----World Trade Organization

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## *Abstract*

*To design well formulated strategy, a firm must first select its target market through market segmentation. Having this in mind, the study has been designed to assess the market segmentation practices and challenges of shoe producers organized under Ethio-International Footwear Cluster Cooperative Society both on quantitative and qualitative perspectives. The study employed mainly primary data sources using collection instruments of questionnaires along with interview with closed ended and open ended questions while secondary data were collected on some aspects. After determining the overall samples size, the selections of the respondents were carried out in two stages first by using stratified random sampling method because there were three groups of producers based on the size of working space (micro, small and medium). The total samples of 101 were involved who were drawn from 124 producers and the researcher also took two respondent from Executive Board Members and two from Management Member of the cooperative. Even though the market segmentation practices are in place among producers, it is performed based on intuition and judgment and lacks formal and written approaches. There are internal (capability related) constrains and external factors both at the segmentation and implementation stages adversely affecting capacity utilization and profit performance. Protracted process of commencing operation by the cooperative created multifaceted problems on producers besides other constraints including capacity, marketing system, tax policy execution, imports of substandard but cheap products, shortage of knowledge on modern production technology, low promotion, distance of working premises from main market center (Mercato). There have been some differences with respect to segmentation and important differences among the three groups of producers was observed in terms of implementation witnesses by variations in capacity utilization and profitability performance where medium enterprises are in a better position than the small and micro enterprise groups.*

*Key Words: Market, Segmentation, Practices, Shoe, Producers*

## CHAPTER ONE

### INTRODUCTION

#### **1.1. Background of the Study**

One of the marketing practices performed in developing marketing strategies found to be segmenting the entire market into distinct and different groups. Yoram and Bell (2011), states that conceptually any business strategy should be based on understanding, meeting and even preceding the needs of target segments. In their model, the two researchers consider that the core of business strategy is the identification of existing and potential customer base, an understanding of underlying heterogeneity and the evolving needs and wants of target segments. Next is the response to segmentation, namely guidelines for the development of products and services, and their associated positioning to meet the evolving needs of the target segments. Finally, the product positioning provides the foundation for the rest of the marketing strategy and the processes, resource allocation decisions and other activities of the firm.

Poenaru and Baines (2011) showed that market segmentation was first introduced by Smith in 1956 as a more precise adjustment of product and marketing effort to consumer requirements, quickly becoming a cornerstone of strategic marketing that five decades on, the increasing complexity in consumer behavior has added a new dimension to the segmentation challenge, as market diversity contributes to market fragmentation, making it increasingly difficult to create meaningful segments and achieve marketing productivity with a target marketing strategy. In essence, segmentation schemes now operate in very heterogeneous markets and this adds to existing implementation problems (Dibb, 2001, Hakki, 2013) defined segmentation for marketing as a strategy that divides a target market into smaller groups of consumers by categorizing these groups according to common attributes. After segmentation, targeted groups are analyzed and a marketing mix for each group is implemented. Firms identify opportunities and needs by segmenting the market. This allows firms to focus on specific needs, to better allocate their resources and to improve marketing mix for each subset.

Especially for small firms, it is therefore an important tool to exist. Similarly, the gain to consumers is that they can find offerings that better satisfy their needs.

From all these background information, segmentation as integral part of marketing strategy process deserves studying the existing practices in this regard.

## **1.2. Background of the Cooperative**

According to EIFCCoS feasibility study 2008, background of its establishment had been associated and initiated from the historical development of the footwear industry and aimed at solving prevailing problems facing the micro, small, and medium shoe producers and exploiting opportunities as stated below through integration of various activities along the value chain.

To alleviate the prevailing problems and make use of the opportunities on the bases of the existing conducive situations for investments, the EIFCCOS was established by integrating footwear producers; that encompass micro, small, and medium units under the Proclamation for Cooperative Society number 147/91 in 2006. EIFCCOS, as a cluster cooperative society organized primarily those who have been formally and informally producing shoes and some of related material suppliers and some of the retailers in the local market in disorganized, dispersed, and predominantly operating in traditional manners and in unsuitable working premises. The approach (cluster model) of organizing the cooperative society was in a very clear lines of value chains, based on formal legal agreements, ultimately to be able to produce and sell competitive and high quality shoes through creating the highest possible level of integration and specialization among members, which will definitely give rise to a higher level of efficiency improvements in its footwear production and marketing systems. The conducive situations for investments have necessitated the emergence of EIFCCOS as a pioneer modern cluster cooperative society to transform the disadvantaged shoe producing enterprises to highly modernized units operating together.

Despite all the long-lasting and deep-rooted production and marketing problems facing the existing shoe producers and prevailing opportunities (EIFCCOS Feasibility Study, 2008), the Cooperative Society hasn't been successful in accomplishing its major objective, transforming the traditional disadvantaged producers into modern production units through integration and specialization of all the value chain activities for various reasons, mainly due to lack of adequate financial capacity of members and fulfilling loan provision criteria of DBE (collateral related problem).

### **1.3. Ethiopian Leather Industry Profile**

Ethiopia is endowed with the highest population of livestock in Africa, which is the source of the very important raw material for footwear i.e. finished leather. Besides, the growth trends of the leather processing factories are creating favorable conditions for the development of competitive footwear manufacturing factories for domestic and international markets. The shoe industry is relatively labor-intensive, and labor is relatively cheap in the country (MoI, 2008). According to Ethiopia Mission in Geneva (2010) under the sub-topic Business and Economy and on Leather and Leather Products it is stated that Ethiopia offers a wide range of processed and semi-processed hides and skins to the world market.

According to Investment Guide of EIA 2011, the footwear industry could be one of the most important manufacturing industries that would be the sources of foreign currency savings and earnings, through fully satisfying local shoe markets and having reasonable shares in the international footwear market. Local footwear productions have been largely dominated by cottage status operations and small shoe factories that produce shoes, located in intersperse with so crowded and confined residential houses, and on very small spaces.

Their production systems are very far from being modern and supported by rudimentary technology, and consequently low quality and small quantity shoes with poor finishing have been produced. They are disorganized and some of them are informal, and as a result, they have remained unsuitable for financial and other supports. Based on EIFCCOS feasibility study 2008, the multiple problems, in which the shoe industry was have given rise to unsatisfied local markets that sustained for a long period of time.

The unsatisfied demand attracted foreign companies, which were so starved for and hovering over international markets for their shoe products. As a result, massive surges of low quality and very cheap shoes, especially from China, flooded the local market. For local producers, things went from bad to worse, and a certain number of the local shoe factories were unable to compete with the Chinese products and ultimately they found themselves swept away from their own market. Some small, medium and large shoe factories, including the informal ones, are struggling to survive the prevailing fierce competition with imported footwear.

Consequently, our domestic shoe market has still remained largely controlled by Chinese low quality and cheap priced footwear which has obviously become one of the serious causes for the consistent depletions of our foreign currency reserves that could be used for importing technologies for development projects. These massively imported shoes, therefore, are negatively impacting not only the footwear industry, but also the development of our national economy.

Based on data obtained from annual report of MoT (2012/13), the leather sub-sector earned 109.9 million USD in the year 2012/13 contributing about 3.5% of the foreign exchange earning obtained from total merchandise export. Considering its potential contribution in employment creation, poverty reduction, foreign exchange earnings and import substitution, the Government of Ethiopia attaches high priority to the leather subsector.

Unless the present state of condition in which the footwear industry in general, and the small, medium and large shoe factories, including the informal ones in particular, are made to turn around, let alone to become an important source of foreign currency from the international markets, they will not be able to obtain minimum benefits from the local markets, which has been controlled by the Chinese shoe products, that will alarmingly continue depleting our foreign currency reserves.

The local demands for better quality shoes will be higher and higher over time, and there will be better possibilities of substituting the poor quality imported shoes by high quality and affordable locally produced shoes.



The government of Ethiopia has made the leather and leather products value chain among the top four priority industries in the country due to its strong backward linkages to the rural economy aiding in the alleviation of poverty and its potential for increasing exports and hence the flow of foreign currency into the economy. By ensuring faster and enhanced development of the industrial sector so that it turns out to be the foundation and leading sector of the country's development activities, special emphasis will be given particularly to two major sub-sectors. Concerted efforts will be exerted to vastly develop the micro and small enterprises sector, which is the most important sub-sector towards employment generation (MoFED, 2010). It is stated in the same source that industry to grow by 20% annually and leather export earnings from 75.73 million USD in the base year to 496.9 million USD at the end of GTP period. If the industry players can move beyond the challenges of raw material quality and supply, the Ethiopian brand of leather production has unlimited potential for growth in the coming decade. Another important measure taken by the government in sphere of policy change in exporting raw and semi-processed hides and skins by imposing a 150% export tax that ultimately helped the local manufactures to obtain better supply of finished leather in better quantity and quality than before.

As stated in Agricultural Growth Program- Livestock Market Development End Market Analysis report of USAID (2013), the Ethiopian leather industry has significant potential to become a world class supplier of high quality finished leather and leather products, including shoes, garments, gloves and accessories. Foreign investors have been increasingly discovering Ethiopia's potential. Current growth trends of the national economy will give rise to the growth of the per capita income of individuals and this in turn creates positive effects and changes of life styles. Positive income effects and the resulting changes of life styles will create demands for high quality shoes.

#### **1.4. Statement of the Problem**

According to the World Bank Data and Research under Country Focus (2010), it is explained that among Ethiopia's abundant resources is a large cattle population whose skins and hides can be processed into leather and its products. In the Leather Sector Master Plan of the Ethiopian Government (2008), one of the weaknesses identified include lack of marketing strategies and practices for which market segmentation plays critical role in developing the strategy.

Today mechanized factories in Ethiopia are clearly competitive and growing, whereas small producers of low-quality shoes are still struggling to compete with Chinese imports. A threat for SMEs is that they continue losing the local market share to cheap imported shoes from China (Tigist, 2010). The same study shows that only 1% of imported footwear are made of genuine leather and the rest 99% are plastic and rubber shoes. China's dominance in the Ethiopian footwear market is its ability to provide cheap, low quality rubber and plastic shoes that are affordable by low income earning resident of the country. But these shoes can be substituted by products that are produced by the SME in the sector for slightly less cheap shoes with a substantial quality when compared to the ones imported from China. These import substitution can be achieved by helping the SMEs in the sector to develop cluster organization, providing skill and knowledge training programs, implementing the concept of Cluster Supply Chain in their organization and so on.

Shoes being imported from China (the shoe being aesthetically pleasing and trendy) are one of the threats to the small and micro producers and the absence of consistently implemented marketing system or strategy and there is no support from institutions to enhance marketing endeavors for the cluster. The prices of the shoes are barely competitive to the products imported from China. No market research and no promotion of products to its customers Tigist (2010). This indicates that absence of well developed marketing strategy that requires market segmentation and in turn market research and implementation to tackle the tough competitive pressure from China in particular.

Designing improved marketing strategy presupposes the well-identification and segmentation of the whole shoe market into workable groups and serves selected segment(s) efficiently. This in turn requires among others, investigation of the existing practices and approaches in marketing including segmentation. To develop enhanced market segmentation that would ultimately improve design and development of well formulated marketing strategies demands assessment of the existing practices in segmenting the shoe market.

In order to eliminate weaknesses and be competitive both in domestic and foreign markets appropriate marketing strategy in terms of product design and manufacturing, pricing, distribution and promotion comes into the forefront.

Accordingly, this study was initiated to investigate the current market segmentation practices of the shoe producers and related challenges thereby to identify the gaps to propose possible measures for improvement.

### **1.5. Research Questions**

This research attempts to answer the following research questions:-

- ✚ What are the existing market segmentations practices of the shoe producers?
- ✚ Do producers apply conventional bases, criteria and process in segmenting the shoe market?
- ✚ Are there any differences among the micro, small and medium shoe producer groups in their segmentation and implementation practices?
- ✚ How producers rate the profit performance level of their current market segments?
- ✚ What are the major challenges of producers in segmenting footwear market and implementation?

### **1.6. Objectives of the Study**

The general objective of the study is to investigate the existing shoe market segmentation practices of producers and to identify associated challenges.

Specific objectives of the study are:

- ❖ To investigate the existing market segmentation practices among the shoe producers;
- ❖ To evaluate the application of conventionally recognized market segmentation criteria, bases and process in current practices of shoe producers;
- ❖ To investigate the existence of differences in market segmentation practices among micro, small and medium producers;
- ❖ To compare the micro, small and medium producers' rating of profit performance level of their current shoe market segments;

- ❖ To identify the key challenges facing producers in market segmentation practices of shoe producers and forward recommendations.

### **1.7. Significance of the Study**

Beside its academic significance, this study would help all stakeholders including but not limited to shoe producers and management of the cooperative to understand best the status of their market segmentation practices and related issues. In this regard. Furthermore, by identifying gaps and challenges observed in this respect, the output of this study would spearhead ways for improving the practices of producers in segmenting their market in order to be more competent and maintain enhanced position in shoe production and marketing. In addition to these, the findings of this study would initiate and can be used as platform by any concerned parties including the government for further decision making and policy and strategy formulation and designing development support.

The study helped the researcher to deepen and enhance his knowledge about market segmentation issues. In addition to these, the study will contribute to academics in availing the document for further reference as the topic has not been adequately dealt locally. Moreover, researchers who may be interested in carrying out further and in-depth research on the segmentation practices or other related issues or the sub-sector in general, can make use of the result of this study.

### **1.8. Scope of the Study**

The scope of the study is limited to leather shoe producers organized under EIFCCOS' umbrella in the form of cooperative and were provided with working premises by the government at Yeka and Mesalemia sites and this study focuses on those shoe producers operating in the two premises. Being the major market for the shoe products, contributing for about 95%-100% of their sales revenue of the firms depending on the type of shoe (EIFCCOS' Annual Report 2010), and hence this study addresses the segmentation practices on consumer markets. The study delimits to covers producers and some of the management members and not consumers and intermediaries dealing with market segmentation.

### **1.9. Organization of the Study**

This study consists of five chapters. The first chapter contained the introduction part dealing with background of the study, background of the cooperative, Ethiopian leather industry profile, research problems, objectives of the study, definition of terms significance of the study and scope of the study. The second chapter discusses the review of related literatures about the subject matter. In chapter three the research design and methodology is dealt. Under chapter four results of the study are presented and discussed in details. Finally, in chapter five the research paper ends by drawing conclusions from the findings, stating the limitations of the study and forwards recommendations.

## CHAPTER TWO

### RELATED LITURATURE REVIEW

#### 2.1. Related Literature

##### 2.1.1. General Introduction

With the development of world economy, there are so many enterprises occur around the globe. Simultaneously, the business competition among them is becoming more and more fiercely and consumers are also diverse in needs and wants. Thus, the exact market segmentation is absolutely vital for business success and market gains. This paper discusses mainly on the conditions and methods of shoe market segmentation through relevant theories reviews and some real cases analyses. There are lots of bases or variables to segment markets which include consumer markets, such as geographic segmentation, demographic segmentation, psychographic segmentation and behavioral segmentation and so forth. On the basis of these variables, businesses can segment the market which it can serve best and benefit most from which (Sun, 2009).

Sun (2009) further states that today, companies recognize that they cannot appeal to all buyers in the market or at least not to all buyers in the same way. Because each of the buyers is unique, and they come from different backgrounds, live in different areas and have different interests and goals. As a result, they are too varied in their needs and buying practices. What's more, the companies themselves vary widely in their abilities to serve different segments of the market. Rather than trying to compete in an entire market, each company must identify the parts of the market that it can serve best and most profitably. During the past century, major consumer products companies held fast to mass marketing, that means mass-producing, mass-distributing, and mass-promoting about the same product in about the same way to all consumers, because they thought that mass marketing creates the largest potential market.

However, the diversity of consumers and fierce competition has made it hard to practice mass marketing. Thus not surprisingly, many companies are now retreating from mass marketing and turning to segment marketing. Especially, as China entered into WTO, more

and more foreign companies have penetrated into the market of China, which brings about more intense competition and more threats to Chinese enterprises. Therefore, in order to possess a share of market, Chinese enterprises should carry out market segmentation to find market segments from which they can benefit most and in which their products are most competitive (Sun, 2009).

In the same token this will work for Ethiopian footwear sub-sector, on those low capacity and less competitive indigenous Ethiopian producers in particular in relation to both existing and potential fierce completion to come emanating from more liberalization measures to be taken in the journey to WTO accession.

### **2.1.2. Definition of Market Segmentation**

Different marketing professors have different explanations of market segmentation. According to Kotler and Lane (2006), a market segment contains a group of customers who share a similar set of needs and wants. Glaxo and Kline (2005) also explain that markets consist of a number of ‘segments’, each segment consisting of ‘homogeneous’ customers. Both Sun (2009) and Baines and Poenaru (2010) provide similar explanation on the origin and definition of market segmentation. Accordingly, they mentioned that market segmentation was first put forward in the middle of 1950s by Smith, an American professor of marketing. In 2003, Lamb defined market segmentation as to divide a market into smaller groups of buyers with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes.”

Citing the work of Piercy and Morgan (1993), Poenaru and Baines (2011) states that as a more precise adjustment of product and marketing effort to consumer requirements, quickly becoming a cornerstone of strategic marketing.

Five decades on, the increasing complexity in consumer behavior has added a new dimension to the segmentation challenge, as market diversity contributes to market fragmentation, making it increasingly difficult to create meaningful segments and achieve marketing productivity with a target marketing strategy. In essence, segmentation schemes now operate in very heterogeneous markets and this adds to existing implementation

problems. Hakki (2013) defined segmentation for marketing as a strategy that divides a target market into smaller groups of consumers by categorizing these groups according to common attributes.

Although so many definitions of market segmentation are given with different words, the core of market segmentation is that it's a set of potential customers alike in the way they perceive and value the product, in their purchasing behavior, and in the way they use the product.

### **2.1.3. The Purpose and Role of Market Segmentation**

Segmentation is considered to play a decisive role in the development of a strong market position by providing a deep understanding of consumer's needs and expectations in order to develop a specific positioning that appeals more effectively to them (Poenaru, 2011).

Until the 1960s, few companies practiced market segmentation. However, recently it has become popular and played an important part in the marketing strategy of almost all the successful organizations. Market segmentation has been a powerful marketing tool for several reasons. Most importantly, nearly all markets include groups of people or organizations with different customer needs and preferences. Market segmentation helps marketers define customer needs and wants more accurately. Secondly, market segmentation is useful for firms to find market opportunities. Under the situation of buyer's market, the marketing strategy of the business should be made to find attractive market environment opportunities. Thus market segmentation is the right tool to achieve the goal. Because by market segmentation the enterprise can know what needs have been satisfied, what needs have been met partially and what wants are still the potential ones (Epetimehin, 2011).

What commodities are of fierce competition, and what commodities need to be developed will be found. Therefore, market segmentation provides the enterprise with new market opportunities. Thirdly, it helps the company master the features of target markets. Fourthly, it is significant for the enterprise to design marketing mixes. Market mix is a kind of marketing plan made by business through considering product, price, sales



promotion, selling place and other factors. There is only one best mix for each specific market and the best mix is achieved only by market segmentation. Fifthly, through market segmentation small companies can develop market and survive among the big companies.

Customer needs vary greatly and are different from each other, so even if it is a big company, its resources are limited and couldn't satisfy all the needs of the whole market. In order to exist, the small companies should make use of market segmentation to segment the whole market so as to find the market segments which are suitable for their own advantages and where wants and needs are still not satisfied. The last but not least, market segmentation makes it easier to get feedbacks and regulate the marketing strategy.

The purpose of segmentation is the concentration of marketing energy and force on subdividing to gain a competitive advantage within the segment. It's analogous to the military principle of concentration of force to overwhelm energy. The marketer must try to understand the target market's needs, wants, and demands. This allows firms to adjust their marketing mix, to cater to particular needs of different market segments. (Goyat, 2011 )

Because in the market segments, enterprise supplies different products for different market segments and makes suitable marketing strategy for each market segment. As a result, it is more convenient to get market information and perceive the responses of customers. All these are of great importance for the business to develop the potential needs and adjust the strategy in time. Segmentation is considered to play a decisive role in the development of a strong market position by providing a deep understanding of consumer's needs and expectations in order to develop a specific positioning that appeals more effectively to them (Poenu, 2011).

#### **2.1.4. Benefits of Market Segmentation**

Yoram and Bell (2011), states that conceptually any business strategy should be based on understanding, meeting and even preceding the needs of target segments. The two researchers consider that the core is the identification of the existing and potential customer base, an understanding of underlying heterogeneity and the evolving needs and wants of target segments. Next is the response to segmentation, namely guidelines for the

development of products and services, and their associated positioning to meet the evolving needs of the target segments. Finally, the product positioning provides the foundation for the rest of the marketing strategy and the processes, resource allocation decisions and other activities of the firm.

Market segmentation is customer- oriented, and thus it is consistent with the marketing concept. By tailoring marketing programs to individual market segments, any company can do a better marketing job and make more efficient use of its marketing resources. Focus is especially important for a small firm with limited resources. Such a firm might compete very effectively in one or two small market segments; however, it would likely be overwhelmed by the competition if it aimed for a major segment (Etzel, Walker, and Stanton, 2004). In general, customers are willing to pay a premium for a product that meets their needs more specifically than does a competing product. Thus marketers who successfully segment the overall market and adapt their products to the needs of one or more smaller segments stand to gain in terms of increased profit margins and reduced competitive pressures. Small businesses, in particular, may find market segmentation to be a key in enabling them to compete with larger firms. Many management consulting firms offer assistance with market segmentation to small businesses. But the potential gains offered by market segmentation must be measured against the costs, which—in addition to the market research required to segment a market may include increased production and marketing expenses.

The rationale for each test is re-examined and substantiality is shown to be unique, requiring a more precise definition The formula - segmentation, targeting, positioning is the essence of strategic marketing (Kotler1994). Market segmentation is an adaptive strategy. It consists of the partition of the market with the purpose of selecting one or more market segments which the organization can target through the development of specific marketing mixes that adapt to particular market needs. But market segmentation need not be a purely adaptive strategy: The process of market segmentation can also consist of the selection of those segments for which a firm might be particularly well suited to serve by having competitive advantages relative to competitors in the segment, reducing the cost of adaptation in order to gain a niche. This application of market segmentation serves the

purpose of developing competitive scope, which can have a powerful effect on competitive advantage because it shapes the configuration of the value chain (Porter, 1996).

According to Porter, the fact that segments differs widely in structural attractiveness and their requirements for competitive advantage brings about two crucial strategic questions: the determination of (a) where in an industry to compete and (b) in which segments would focus strategies be sustainable by building barriers between segments. Through market segmentation the firm can provide higher value to customers by developing a market mix that addresses the specific needs and concerns of the selected segment. Segment marketing offers key benefits over mass marketing. The company presumably better design, price, disclose and deliver the product or service to satisfy the target market. The company also can fine-tune the marketing program and activities to better reflect competitors' marketing. However, even a segment is partly fiction, in that not everyone wanted, exactly the same thing. Companies must work harder to ensure that their marketing has the greatest impact possible. Increasing competition makes it difficult for a mass marketing strategy to succeed. Customers are becoming more diversified and firms are constantly differentiating their products relative to competitors. When the focus is on segmented markets, the company's marketing can better match the needs of that group. Market segmentation allows firms to focus their resources more effectively, and with a greater chance of success. Marketing, product and brand managers are continuously being asked to increase their return on investment. They are constantly searching for new information about their markets, and new ways to approach them. This is where market segmentation comes in.

## **2.2. Related Theories and Conceptual Framework**

### **2.2.1. Theoretical Foundations of Market Segmentation**

Hunt & Arnett (2004), in their study theme "Market Segmentation Strategy, Competitive Advantage, and Public Policy", discuss the theoretical foundation market segmentation based on the resource-based segmentation strategy theory. The two conflicting theories of the main stream of economics (neoclassical) static view and the marketing scholars' dynamic approach are the major theoretical foundations.

### **2.2.1.1. The Marketing Scholars' Dynamic Approach to Market Segmentation**

This theory supported by resource-advantage theory of competition on market segmentation argues as follows:-

#### **2.2.1.1.1. Resource-Advantage Theory**

From this perspective, firms using market segmentation strategies are actually benefiting consumers and society by providing them with market offerings that better satisfy individual wants and needs. Consequently, firms wishing to provide superior value to consumers should try to develop market offerings that are well suited to specific market segments. Furthermore, society should encourage firms to use market segmentation strategies. This theory argues that resource-advantage theory, a process theory of competition, meets these criteria and, therefore, provides a theoretical foundation for market segmentation strategy. Furthermore, it argues that the use of market segmentation promotes public welfare by prompting the innovations that foster firm-level, industry-level, and societal-level productivity. For market segmentation strategy, the fundamental thesis is that the achievement of competitive advantage and, thereby, superior financial performance results from firms (1) identifying segments of demand, (2) targeting specific segments, and (3) developing specific marketing “mixes” for each targeted market.

#### **2.2.1.2 The Main Stream of Economics (Neoclassical) Static View**

Although market segmentation is accepted as a viable strategy for gaining competitive advantage, extant theories of competition in mainstream economics are inhospitable to segmentation strategy. Indeed, the dominant theories of competition in mainstream economics, that is, neoclassical perfect competition and monopolistic competition, view the competitive advantages gained from segmenting markets as detrimental to societal welfare because market segments represent the artificial fragmentation of homogeneous demand, which implies that “segmentation is viewed as an imperfection in the structure of markets. According to this view, market segmentation should be viewed as attempts to gain monopoly power. Market segmentation is seen as a variation on the theory of price setting by monopolists and is usually discussed under the topic of price discrimination. Therefore, according to this view, society should discourage firms from using market segmentation strategies because it fosters price discrimination.

In contrast, other researchers, including most marketing researchers, maintain that heterogeneity of demand is natural

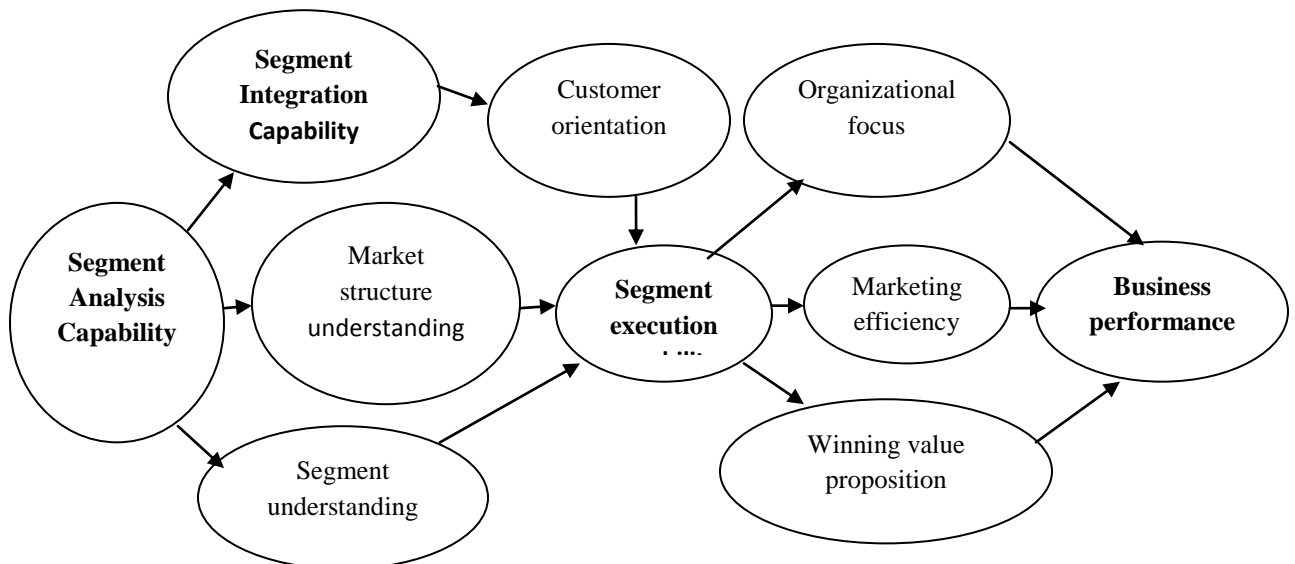
## 2.2.2 An Organizational Capability Model of Market Segmentation

### 2.2.2.1 Re-Conceptualization of Market Segmentation as a Firm's Capability

In their research conducted in 2011 under theme “An Organizational Capability Model of Market Segmentation”, Poenaru and Baines addressed market segmentation implementation, aiming to identify the organizational processes representing market segmentation capability and the mechanisms by which they might induce business performance outcomes. They re-conceptualized market segmentation as a firm's capability to undertake segmentation analysis on a routine basis, to integrate the resultant segmentation schemes into organizational plans, structures, processes and culture and to execute those schemes by guiding strategic and operational marketing decisions. They defined market segmentation capability as: *“A firm's ability to undertake segmentation analysis routinely, to integrate the resultant segmentation schemes into organizational plans, structures, processes and culture and to execute those schemes in order to guide strategic and operational marketing decisions.”* p.5

A framework of market segmentation and implementation was proposed to elucidate how market segmentation implementation translates into business performance outcomes.

**Figure 2.1: Market Segmentation Implementation Capability Framework**



Source: Adopted from Poenaru and Baines 2011, p.6

The two researchers explained that conceptually, several authors have pointed to different types of segmentation outcomes: segment/market share, higher profits through price discrimination, cost reductions through optimal resource allocation to segments, customer satisfaction and loyalty through fulfilling segment needs. And also they stated that empirically, only few studies of market segmentation practice provide some inferential insight into the impact of market segmentation strategies suggesting that market segmentation affects positively organizational performance outcomes, but those studies do not offer any insight into the process of *how* this happens. Studying segmentation outcomes is tightly linked to the question: what happens when the firm brings the segmentation plan to market, implementation is multi-faceted referring both to the marketing planning process, where segmentation insight is used for strategy development and resource allocation and the execution of plans by employees which should involve extra resource provision and the realignment of resources and personnel to reflect new priorities. According to them, best practices indicate some organizational processes that may be more effective than others in implementing segmentation in organizations and achieving performance outcomes. These organizational processes, when they ensure superior coordination of functional activities, which require complex bundles of skills and are difficult to imitate, are generally considered to be organizational capabilities.

By combining views of various researchers in the dynamic capability view camp the two scholars argued correspondingly that market segmentation ought to be regarded as an organizational capability for the following three reasons:

1. Research into the financial impact of marketing has adopted a capability view, including market segmentation as part of conceptualizing marketing capabilities, e.g. segment tracking in environmental scanning capability skill to segment and target markets as a marketing competence and ability to effectively segment and target markets as part of marketing planning capability.
2. Market segmentation is an important generator of market knowledge, which is difficult to codify because of its socially complex nature making it difficult for rivals to copy and thus deployed to generate superior performance. Market segmentation generates market knowledge by alerting the company to critically important trends and opportunities enabling the development of innovative products, prices, distribution and service strategies and allowing the identification of underserved/growing/least price sensitive segments and

product and service offerings that may provide the greatest non-price value to customers and channel members.

3. There is significant heterogeneity among firms in terms of ability to implement segmentation-based strategies –anecdotal evidence suggests some firms implementing segmentation achieve performance improvements but other evidence indicates that implementation problems prevent other firms from reaping business benefits.

#### **2.2.2.2. Dimensions of Market Segmentation Capability**

The three processes identified by Poenaru and Baines (2011) indicate that market segmentation to be an organizational capability with three distinct, but inter-related components: i) segmentation analysis, ii) segmentation execution and iii) segmentation integration.

**Segmentation Analysis Capability:** Constitutes the firm's ability to develop, evaluate and monitor segmentation schemes, manifested through identifying, qualifying, evaluating, profiling and monitoring new segments. It extends distinction of the steps in segmentation analysis (i.e. segment identification, qualification, evaluation) and criteria of evaluation of segmentation quality.

In addition, it includes segment profiling and segment monitoring which make the developed segmentation schemes more actionable by providing sufficient detail to develop and communicate tailored and current marketing mixes to targeted segments.

**Segmentation Execution Capability:** Is the firm's ability to use the insight generated by segmentation schemes for strategic and operational marketing purposes. The following were mentioned among the many uses of strategic and operational purposes: i) reaching target segments through media, sales and distribution channels, ii) tailoring propositions to each segment's needs, iii) managing customers by churn, loyalty and value, iv) product management (rationalizing the product portfolio once the firm selects their target market and required customer benefits), v) segment management (managing where market share comes from and matching target segments to existing products), vi) marketing planning (segmentation is used to set a long-term strategy through assessing customer needs and organizational capabilities) and vii) performance measurement (assessing market performance by measuring segment share).The findings of Poenaru and Baines (2011) also

indicate the real execution capability lies in recognizing the different purposes and levels where segmentation insight can guide decision making and using it to drive marketing actions flexibly.

**Segmentation Integration Capability:** Is defined as the ability of the firm to embed segmentation into organizational plans, processes, culture and structure. These areas of integration emerge as crucial in facilitating a common understanding of the way the firm views its marketplace and in the development of segmentation as an internal currency. Failure to engage the rest of the organization in the segmentation project is likely to result in implementation failure.

Based on their findings, they suggested that market segmentation can be perceived as a multidimensional construct, comprising skills and processes to address the analysis, integration and execution components of segmentation. These processes require specific financial and human resources and skills necessary for successful implementation.

Furthermore, the findings indicated that successful implementation refers to using segmentation insight for several marketing activities (e.g. strategic planning, new product development, customer management), which have been shown in the literature to create significant organizational value. Accordingly, implementing market segmentation is perceived to have positive effects on three types of business performance measures: a) through targeted marketing campaigns and tailored value propositions based on each segment's needs, several participants have improved their customer performance measures, e.g. customer acquisition, loyalty and satisfaction; b) through identifying remaining pockets of value in a maturing market and/or growing, under-served or valuable segments in a developing market, exiting shrinking segments and adapting brand communications to suit each segment's preferences, other participants have improved their market performance measures (e.g. market share, brand equity); c) through marketing cost reductions (due to targeting marketing campaigns), selecting profitable segments, identifying high growth or high value segments and managing segments, other participants have reported improving their profitability. They suggested that market segmentation implementation has three main business performance outcomes, mirroring the conceptual



suggestions from the literature. And also these performance outcomes are achieved through six intermediary mechanisms linking the components of market segmentation capability with each other and performance outcomes

### **2.3. Bases for Segmenting Consumer Markets**

According to Kotler (2009) two broad groups of variables are used to segment consumer markets. Some researchers try to form segments by looking at descriptive characteristics; geographic, demographic, psychographic. Then they examine whether the customer segments exhibit different needs or product responses. Other researchers also try to form segments by looking at behavioral considerations such as consumer response to benefits, use occasions, or brands. Once the segments are formed, the researcher sees whether different characteristics are associated with each consumer-response segment. Regardless of which type segmentation scheme is employed, the key is that the marketing can be profitably adjusted to recognize customer differences.

There are two main markets: consumer markets and business markets. In the process of market segmentation, each of the two markets has its own segmentation bases or variables. Here arises a new concept – segmentation bases or variables. They are features of individuals, groups or organizations and often used by marketers to divide a total market into segments. The choice of segmentation bases is significant because an inappropriate segmentation strategy may lead to lost sales and missed profit opportunities.

The key is to identify bases or variables which will produce substantial, measurable, and accessible segments which are crucial for carrying out right marketing mixes. The followings are the bases for segmenting consumer markets.

#### **2.3.1. Geographic Segmentation**

Kotler & Lane (2006) reveals that geographic segmentation calls for dividing the market into different geographical units such as nations, states, regions, countries, cities or neighborhoods. The company can operate in one or a few areas, or operate in all but pay attention to local variations.

Some approaches combine geographic data with demographic data to yield even richer descriptions of consumers and neighborhoods. Which distribution channel and promotional media work best in reaching our target clusters in each area?

The enterprise can determine to do business in one or more geographic regions or to operate within all the regions, but much attention must be paid to the differences of needs and preferences among regions. Different regions have different customs, so the enterprise must execute marketing strategy in accordance with the local situation.

Many companies today are localizing their products, advertising, and promotion to fit the needs of individual regions, cities and even neighborhoods. Geographic segmentation provides useful distinctions when regional preferences or needs exist. But it's important for marketers not to only use geographic location as a segmentation method because distinctions among consumers who are in the same geographic location also exist. Therefore, using multiple segmentation bases is probably a much better strategy for targeting a specific market.

### **2.3.2. Demographic Segmentation**

In demographic segmentation, the market is divided into groups on the basis of variables such as ages, family size, family lifecycle, gender, income, occupation, education, religion, race, generation, nationality, and social class. There are several reasons for the popularity of demographic variables to distinguish customer groups.

One reason is that consumer's needs, wants and usage rates and products and brand preferences are often associated with demographic variables. Another is that demographic variables are easier to measure.

Even when the target market is described in non-demographic terms (say, a personality type), the link back to demographic characteristics may be needed in order to estimate the size of the market and the media that should be used to reach it efficiently. Here is how certain demographic variables have been used to segment markets (Kotler and Lane 2006).

In demographic segmentation, the market is divided into different groups on the basis of age, sex, family life circle, income, occupation, education, religion, race, generation gap and nationality.

Demographic variable is the most commonly used base to identify consumer groups. Partly because the desires, preferences and usage rates are closely related to demographic variable and the other reason is that it is easier to measure demographic variable than other types of variables.

Even if the target are described according to non-demographic factors (say personality type), but demographic factors should be considered in order to know the size of target markets and reach target markets effectively. May be generation gap, as a variable, is a little difficult to understand. Therefore, more explanations will be given to show how generation gap has been used to segment markets. Many researchers recently have intended to segment markets by using generation gap. This idea comes from the fact that each generation has been affected greatly by the environmental background of the process of growing up, such as music, sports, policies and different kinds of events at that time. Demographers call these groups as “cohorts”. Members of a cohort have the same main experiences.

### **2.3.3. Psychographic Segmentation**

Psychographics is the science of using psychology and demographics to better understand consumers. In psychographic segmentation, buyers are divided into different groups on the basis of psychological personality traits, lifestyle, or values.

People within the same demographic group can exhibit very different psychographic profiles (Kotler and Lane, 2006).

In this segmentation, the customers are divided into different groups according to life style or personality or values. People in the same demographic group may show great differences in psychographic features. Life style is formed partly because the consumers are “time-constrained or money-constrained”. Those whose time is limited intend to do two or more tasks at the same time, for example, they will call someone or eat while they are driving, or they will go to work by bike in order to build up their bodies. They prefer cats to dogs for it is easier to feed cats. Thus some firms will offer convenient services for these time-constrained customers. And for those money-constrained customers, the firms will offer services or products with low costs.

Another aspect of psychographic segmentation is personality. With different personalities the customers may exhibit a great variety of preferences. Some customers are frank; some are full of vigor and enthusiasm; some are reserved and like what are conventional. As a result, the firms must add personality to their products so as to meet the needs of customers.

#### **2.3.4. Behavioral Segmentation**

Kotler and Lane (2006) states in behavioral segmentation, buyers are divided into groups on the basis of their knowledge of attitude toward, use of, or response to a product.

Decision roles: It is easy to identify the buyer for many products. People play five roles in buying decision: Initiators, Influencers, Deciders, Buyers, and Users.

Different people are playing different roles, but all are crucial in the decision process and ultimate consumer satisfaction.

Behavioral variables: many marketers believe that behavioral variables-occasions, benefits, user status, usage rate, loyalty, status, buyer-readiness stage, and attitude-are the best starting point for constructing market segments. Combining different behavioral bases can help to provide a more comprehensive and cohesive view of a market and its segments.

In this segmentation, buyers are divided into groups on the basis of their knowledge of, attitude toward, usage of, or response to a product. Many marketers believe that behavioral variables, including occasions, benefits, user status, usage rate and loyalty status, are the best starting points for constructing market segments (Kotler, 2007).

#### **2.4. Effective Segment Evaluating and Selection Criteria**

Thomas (1980) argued that any proposed segmentation should pass four tests, namely with reference to *measurability*, *accessibility*, *stability* and *substantiality*. However, there are differences in the number and types of tests. Kotler (1998) includes action *ability*. Each test is variously described as a requirement or condition for establishing segment viability.

Kotler and Lane (2006) identify the following criteria for effective segmentation:

Not all segmentation schemes are useful. To be useful, market segments must rate favorably on five key criteria:

*Measurable:* The size, purchasing power and characteristics of the segments can be measured.

*Substantial:* The segments are large and profitable enough to serve. A segment should be the largest possible homogenous group worth going after with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for people who are less than four feet tall.

*Accessible:* The segments can be effectively reached and served.

*Differentiable:* The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs.

*Actionable:* Effective programs can be formulated for attracting and serving the segments.

In evaluating different market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does a potential segment have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in the segment make sense given the firm's objectives, competencies, and resources? Some attractive markets may not mesh with the company's long-run objectives or the company may lack one or more necessary competencies to offer superior value. After evaluating different segments, the company can consider five patterns of target market selection.

## **2.5. Levels of Market Segmentation**

The starting point of discussing segmentation is Mass marketing. In mass marketing the seller engages in mass production, mass distribution and mass promotion of one product for all buyers. The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. However, many critics point to the increasing splintering of markets; which makes mass marketing more difficult. Most companies are turning to micromarketing at one of four levels; segments, niches, local areas, and individuals (Kotler & Lane, 2006).

Because buyers have unique needs and wants, each buyer is potentially a separate market. Ideally, then, a seller might design a separate marketing program for each buyer. However, although some companies attempt to serve buyers individually, many others face larger numbers of smaller buyers and do not find complete segmentation worthwhile. Instead, they look for broader classes of buyers who differ in their product needs or buying responses. Thus, market segmentation can be carried out at several different levels. Figure shows that companies can practice no segmentation (mass marketing), complete segmentation (micromarketing), or something in between (segment marketing or niche marketing).

## **2.6. Challenges to Market Segmentation and Implementation**

These challenges were grouped into four sub-categories: knowledge/information/data challenges; staff/human capital challenges; market challenges; and general challenges.

A study conducted by Kline and Greengrave. (2005) on retailers that segmented their markets were asked to comment on significant, overarching challenges to implementing a market segmentation strategy within their respective businesses. Lack of practical guidance on what elements are necessary for a successful market segmentation strategy: Expensive and/or time consuming are commonly cited challenges: Accordingly, it gets really difficult to react in the marketplace very quickly when you have a broad [geography to cover].” Limited access to marketing expertise to develop and/or execute a market segmentation strategy: Two cooperatives expressed this challenge as an important barrier their firm had encountered through the process of incorporating a market segmentation strategy into their strategic plan. Resistance to change from sales staff and sales managers: More important [than any other challenge] is the culture of your company and how you’ve approached servicing customers and managing relationships for years and years. People that have always done it, and fundamentally believe there is a right way to do it, and have done it that way for a long time are difficult to move to a different mindset.

Rapidly changing market environments (market segments become obsolete quickly): sample of retailers. Information systems to manage data for market segmentation strategy support, Customer resistance to change (alienate customers who do not participate): Two

independents and one cooperative acknowledged this challenge as an important barrier their firm had encountered through the process of incorporating a market segmentation strategy into their strategic plan.

Although closely related to the implementation challenge regarding resistance to change found in the survey, the resistance here is on the customer's behalf rather than the retailer's sales staff. "One of the most significant things we encountered to start with is that you are beginning to do something your customers have never seen before.

Because it's different, and depending on how you are segmenting out there, you are going to have a percentage of your customers that don't like it. It's not the way it has always been done. And that puts some [customer] relationships at risk." Resistance to change by sales staff and sales managers, and rapidly changing market environments (market segments become obsolete

## **2.7. Summary and Conclusion of Related Literature Review**

### **Summary**

Market segmentation is to divide a market into smaller groups of buyers with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes. The purpose of market segmentation is the concentration of marketing energy and force on subdividing to gain competitive advantage within the segment.

Market segmentation benefits firms to understand, meeting and even preceding the needs of target segments. As market segmentation is customer-oriented, thus it is consistent with the marketing concept. Market segmentation allows firms to focus their resources more effectively, and with a greater chance of success.

Theoretically, there have been two conflicting views regarding market segmentation. The Resource-Based Segmentation Strategy /Dynamic View Theory advocates that market segmentation strategies are actually benefiting consumers and society by providing them with market offerings that better satisfy individual wants and needs and use of market segmentation promotes public welfare by promoting innovations that foster firm-level, industry-level, and societal-level productivity. It also considers heterogeneity among buyers are natural and not artificial. Contrary to this theory, theories of competition in

main stream economics are inhospitable to segmentation strategy. The theory considers that the competitive advantage gained from segmenting markets as detrimental to societal welfare because market segments represent the artificial fragmentation of homogenous demand, which implies that segmentation is viewed as an imperfection in the structure of markets. Moreover, it is viewed as an attempt to gain monopoly power entailing price discrimination. Hence, society should discourage firms from using market segmentation strategies because it fosters price discrimination.

Organizational capability model of market segmentation provide new perspective by re-conceptualizing market segmentation as a firm's capabilities to undertake segmentation analysis on routine basis to integrate the resultant segmentation schemes into organizational planning, structure, processes, understand and culture. According to this model, there are three dimensions of market segmentation. These are: - Segmentation Analysis Capability, and Segmentation Execution Capability.

There are four bases of market segmentation that includes demographics, geographic, psychographic, and behavioral. Effective segmentation criteria include: substantiality, measurability, accessibility, differentiability, and actionable for marketing programs are in use globally. Concerning the level of market segmentation, mass marketing, niche marketing and micro marketing are identified in literature.

Various challenges of market segmentation and implementation were identified through research. The most commonly cited challenges are: - rapidly changing marketing environment (market segments become obsolete), limited access to marketing expertise, lack of practical guidance, expensive and/or time consuming, resistance to change by sales staff and customers.

## **Conclusion**

From review of the various literatures and views, the following conclusion was drawn:-

The basic rationale for segmenting a market is the ever-increasing dynamism and changes in buyers' behaviors that ultimately lead to heterogeneity of wants and needs among consumers and the varied capability of firms in serving the market. Capability of individual firm both at segmentation and implementation stages plays decisive role in

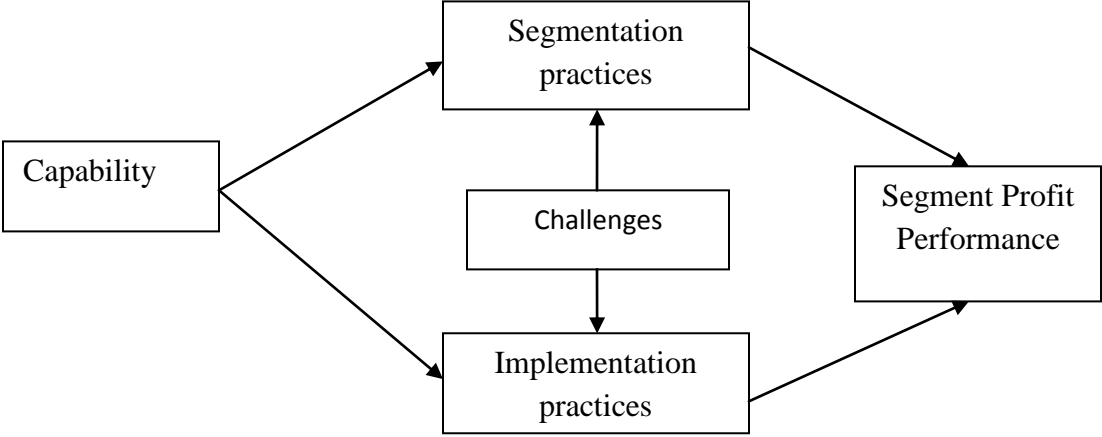


tackling the challenges and achieving successful profit performance. Integrated capability of analyzing the market, integrating the segmentation and execution of the segmentation are necessary for successful business performance. Market segmentation found to be very crucial for small firms since their resource bases is lower as compared to medium and larger ones. Without appropriate market segmentation, a firm will not be able to design (develop) a right marketing strategy. Hence, studying market segmentation practices which involved as an integral part of marketing applied through development of feasible marketing strategy.

**2.8. Framework of the Study**

A framework for analysis of the relationships between different variables in the study is displayed in the following diagram.

Figure 2: Framework for Studying Market Segmentation Practices and Challenges



Source: Developed by the Researcher

## CHAPTER THREE

### RESEARCH DESIGN AND METHODOLOGY

#### 3.1. Research Design

The study has adopted mixed approach of research design encompassing both qualitative and quantitative to obtain more comprehensive information and attain desired results through searching for detailed data about the segmentation practices and constraints encountered. Both primary and secondary data collection procedures were employed. Instrumentally, questionnaires, interviews, some observations at the premises while production was taking place and secondary source reviews were used in this study.

#### 3.2. Population and Sampling Techniques

The prime target populations of the study were shoe producers organized under EIFCCOS operating at Yeka and Mesalemia sites. In addition to producers the Executive Board and management members of the cooperative society were part of the target population. The sampling unit was the list of producers currently operating constantly or at least on intermittent basis. The list contains 124 producers and according to IFAS EXTENSION (2014) citing Israel 1992, the following formula was used to determine the sample size for the 5% error level.

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n is the required sample size

N is the population size

e is the error level

Accordingly, the required sample size,  $n = 124 / (1 + 124(0.05)^2) = 95$ .

However, efforts have been made in the actual data collection to have more extra samples were considered to get the required size, and a total of 103 which is higher by 8 than the required 95.

From these extra samples, 2 questionnaires were disqualified due to quality problem and the remaining 6 well completed ones are incorporated in the analysis since size above the minimum is desirable and would improve the result more accurate. In other words, the totals of 101 questionnaires were analyzed. A stratified random sampling based on the size of the firms was utilized to select representatives from the three groups of producers depending on the number of firms currently operating in the two premises (Yeka and Mesalemia) both on intermittent and constant basis i.e. 62, 39, and 23 for micro, small and medium enterprises.

Out of seven Board members of the cooperative, only two were incorporated in the study due to unavailability of others despite repeated calls and appointments. In the case of the management members, from the five managerial positions only two were incorporated in the study since the other positions being vacant during the period of data collection.

### **3.3. Types of Data and Tools of Data Collection**

In order to address the stated research questions and objectives, primary and secondary sources were employed for the study. Specifically, primary data on general characteristics of respondents, types shoe produced current market segments, existing practices of segmentation, production capacity utilization, profit performance rating on the current market segment, difficulty of switching from one segment to the other, challenges in segmentation of the shoe market and implementation practices among others.

Secondary data sources were used in gathering data including the status and contribution of the leather subsector and footwear in particular. Information for back grounding of the study and on Ethiopia's potential for future development of the subsector obtained through secondary sources. Data with regards to categories of producers based on size of working space and premises were also gathered through secondary data sources. Sectoral studies various reports and member profile database were employed as sources of data for the study. On the part of secondary data, written documents on corporate strategies and marketing strategies, different reference books, journal articles, Internet web sites, policies, procedures, and document reports from various organizations was referred.

The information that was obtained by using both instruments was integrated during data presentation and analysis phase.

In order to gather the data from relevant sources, both primary and secondary data collection instruments are used. The primary data collection was conducted in the form of self-administered questionnaire and as well as personal interviews with producers.

Personal interviews were necessitated for the part of questions directly related to market segmentation concepts and core issues which were found relatively difficult for the producers to complete partly due to their low educational background and the difficult nature of the topic and conceptual terminologies to address even after translation into Amharic. The researcher had to explain most the questions relevant to market segmentation both directly and indirectly to the respondents to obtain better quality data.

Ofori & Aryeetey (2011, p.6) suggests that questionnaires or survey designs are one of the data collection methods used when working from a qualitative perspective. In the same source mentioned above citing the work of Creswell (1994) also maintains that the main aim of a qualitative study is to make an enquiry into a human or social problem. The study therefore, employed a survey and interview approach. Structurally, combinations of both close-ended and open-ended question types were presented in order not to restrict respondents to the pre-determined choices only and avoid unwanted responses at the same time. A semi-structured interview was conducted with each of the key informants to acquire the necessary information for the study. A semi-structured interview is an interview in which the orders of various topics are dealt with and the wordings of the questions are left to the interviewer's discretion. This enables the researcher to have control over the topics and the format of the interview also to pose necessary questions to garner the necessary information.

In the case of obtaining data from Executive Board and management members, self-administered and semi-structured questionnaires were used as this type of questionnaire allows the respondents to have sufficient time to answer the detail questions adequately and freely to provide substantial amounts of information and their educational background is better than most producers.

In addition to that, this type of interview enables to ask same questions in each interview to obtain structured responses and at the same time the interview remain flexible so that more deep and detail information can be obtained.

### **3.4. Procedure of Data Collection**

An initial visit was made to the organization to obtain primary insight on how producers are operating and the list of producers that would enable to determine the sample.

After the problem defined, initial facts and data on prevailing practices were collected to show the extent of the problem. Before going into the main survey, the questionnaire was tested on two producers and that helped a lot to revise and make useful adjustments on the types and structure of the questions. Important data were collected using questionnaire, interview, and secondary sources that are related to the subject. All facts, opinions and evidences that were collected, analyzed after they organized to come out with relevant information.

### **3.5. Methods of Data Analysis**

The data collected were cleared, coded and entered into SPSS version 20 for analysis. The quantitative and qualitative data were analyzed using descriptive statistics and frequencies, including mean, variances and standard deviation, tabulation, percentages, and charts.

### **3.6 Ethical Considerations**

The subject of research ethics both in designing the research and collection of data has important implications both for the negotiation of access to people and organizations and the collection of data. Your choice of topic will be governed by ethical considerations. (Fisher, Buglear, Lowry, Mutch and Tansley: 2007). The same source stated that if the topic you were researching was one where it might be beneficial for your research that the fact that you were collecting data on individuals was not disclosed, then this would pose a similar ethical dilemma

Accordingly, ethical issues are taken into considerations in this study where in the first place, the research topic was ethically selected based on its importance as one of the key components of development of marketing strategy and the collection of data, through interview in particular was conducted with full consent and willingness of the research subjects. The analysis, discussion of results and conclusions and recommendations were also performed in ethical manner.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### 4.1. Results

##### 4.1.1. Characteristics and General Information of Respondents

The characteristics and general information of the respondents have some ties with the research topic and objectives. For instance, the domicile concentration, average number of employees relates to capacity utilization, distance between working premise and main market center are connected to the challenges in the implementation of market segmentation and shoe production business start up mode family transferred business entry also affects the market segmentation practices of current operators.

**Table 4.1: Sex Distribution of Respondents**

Sex	Frequency	Percent	Cumulative Percent
Female	8	7.9	7.9
Male	93	92.1	100.0
Total	101	100.0	

Source: Computed based on own survey data, 2014

Table 4.1 above, presents the characteristics and general information of respondents in terms of their age groups and accordingly, about 7.9 % of the respondents are women and the rest 92.1% of them are male and this implies that the business is dominated by males.

Table 4.2 below shows the distribution of respondents by the size of working space and working sites. In terms of size of working space, the micro, small and medium enterprises constituted respective share of 49.5, 31.7, and 18.8% as the table indicates.

**Table 4.2: Producers by Working Space and Site**

Category of producers	Working space per producer (m <sup>2</sup> )	Frequency	Percent	Working at Yeka site	Working at Mesalemia site
Micro	25	50	49.5	50	0
Small	50	32	31.7	32	0
Medium	100	19	18.8	7	12
<b>Total</b>		<b>101</b>	<b>100.0</b>	<b>89</b>	<b>12</b>

**Source: Computed based on EIFCCO'S members database, 2014**

The same table above also shows that 50 (100%) of the micro enterprises and 32(100%) of small enterprises are operating at Yeka site while only 7(37%) of the medium producers are located in this site and the remaining 12 (63%) are in the Mesalemia premises. Mesalemia site remains with overall share of only 12 (11.9%). The result implies that how majority of the producers are remote to the main market center (Mercato). And also since the large proportion of members are micro enterprises, this implies that how capacity problem is prevalent among the cooperative members that needs huge effort to improve the system. Table 4.3 below displays respondents' education level, residential sub-cities and the distances from their working premises.



**Table 4.3: Education, Residential Sub-Cities and Distance**

	Frequency	Percent	Cumulative Percent
<b>Education status</b>			
Primary	32	31.7	31.7
Secondary	61	60.4	92.1
Diploma	8	7.9	100.0
Total	101	100.0	
<b>Residential sub-city</b>			
Addis Ketema	46	45.5	45.5
Kolfe Keranio	37	36.6	82.2
Lideta	6	5.9	88.1
Nefas Silk Lafto	3	3.0	91.1
Others	9	8.9	100.0
Total	101	100.0	
<b>Distance between residence &amp; work place in full km</b>			
1-5	17	16.8	16.8
6-10	9	8.9	25.7
11-15	43	42.6	68.3
16-20	31	30.7	99.0
>20	1	1.0	100.0
Total	101	100.0	

**Source: Own Survey Data, 2014**

It is apparent from table 4.3.above that the majorities of the respondents 93(92.1%) achieved secondary and primary school education level while only 8 (7.9%) of respondents were found to be at Diploma level. Among those 8 holders of Diploma, only two of them earned their Diploma in Marketing Management and one in design and leather technology related fields. The remaining five obtained their Diploma in other streams which are not directly related to their operation and the subject under consideration.

The same table above shows that majority of the producers (82.2%) reside in Addis Ketema and Kolfe Keranio sub-cities.

The distance between their residential sub-cities and working areas indicate that most of the producers (42.6%) and (30.7%) operating in Yeka sub-city (near to Yeka Michael Church) in particular are forced to travel 11-15 and 16-20 kilometers of single trip. And also the distance between Yeka site and the major market centre (Mecato) is about 13 kilometers. Table 4.4 below shows experience in shoe production, average number of employees each production unit has hired during the year 2013/14 and how respondents entered into the business.

The results in Table 4.3 above is that the low level of educational background of the respondents have implication in that producers lack necessary knowledge of marketing i.e. modern way of market segmentation and designing and implementing marketing strategy, management or any other modern skills and operational efficiency. The concentration of producers in the two sub-cities (Addis Ketema and Kolfe Keranio) and the distance between residential areas and Yeka site working premise all can have adverse effect on operational efficiency and entail additional cost coupled with underdeveloped transportation system.

**Table 4.4: Experience, Number of Employees and Business Start Up**

Variables	Frequency	Percent	Cumulative Percent
<b>Experience in full years</b>			
1-5	17	16.8	16.8
6-10	9	8.9	25.7
11-15	43	42.6	68.3
16-20	31	30.7	99.0
>20	1	1.0	100.0
Total	101	100.0	
<b>Average number of employees</b>			
1-5	59	58.4	58.4
6-10	22	21.8	80.2
11-15	14	13.9	94.1
16-20	5	5.0	99.0
>20	1	1.0	100.0
Total	101	100.0	
<b>Business startup mode</b>			
Family	74	73.3	73.3
Friend	10	9.9	83.2
Employed	16	15.8	99.0
Others	1	1.0	100.0
Total	101	100.0	

**Source: Own Survey Data, 2014**

As Table 4.4 depicts, 74.3% of the producers have 11 and more years of experience in shoe making business. As explained by some of the producers, they started the business at the age of childhood.

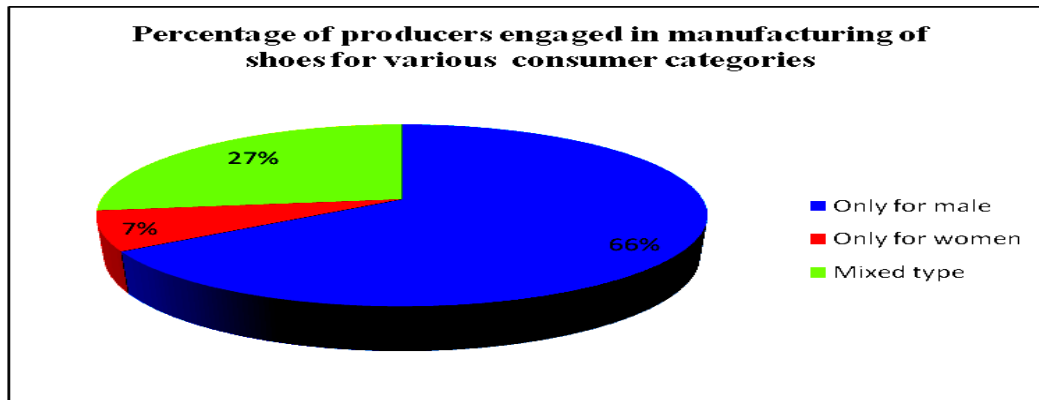
Most of the firms (58.4%) are managing 5 or less number of employees. The second group of growers (35.7%) hires 6 to 15 laborers. Nearly, the average number of employees each producer hired is 20 or less since only 1 respondent employed more than 20 workers.

Regarding the mode of entering into the shoe making business, dominant part of the respondents (73.3%) as shown in the same table above started their shoe making business by learning from their families. Being formerly employee of other producers could helped many of the currently operating producers (15.8%) to enter the business.

#### 4.1.2. Type of Shoes Produced, Annual Capacity and Actual Production

According to the information obtained from respondents, in most cases they are engaged in shoes production made of natural leather upper but plastic soles. In terms of consumer groups, adult men and women and also children shoes are manufactured by these producers.

**Figure 4.1: Production of Shoes for Various Consumer Groups**



Source: Own Survey Data 2014

Figure 4.1 above points out that majority of the respondents (66.3%) are making only male shoes while those engaged in female shoe production constitute about 7% and the rest 34% produce mixed types of shoes in varied proportion including for children.

Respondents were requested to indicate their annual capacity of production and their individual average actual production during the last three years. The results are presented in the following table.

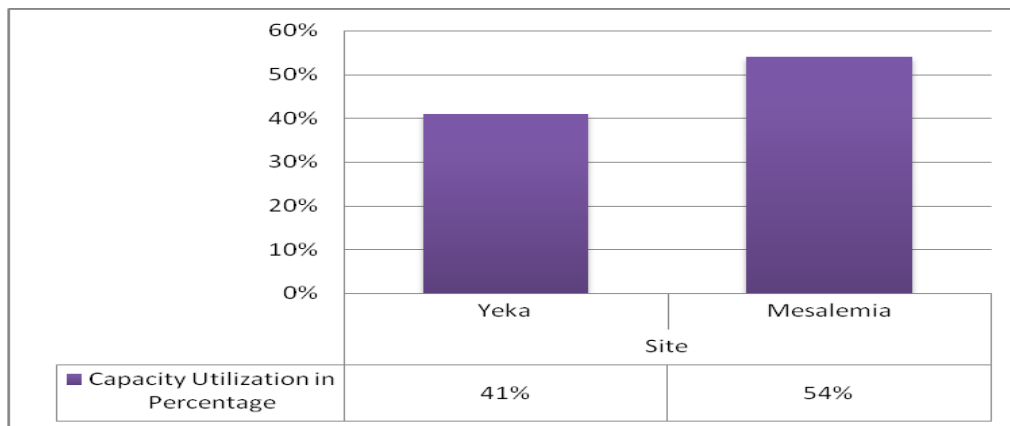
**Table 4.5: Annual Capacity Utilization Rate by Producer Category**

Category of producers	Working space (m <sup>2</sup> )	Capacity utilization
Micro	25	27%
Small	50	35%
Medium	100	49%

Source: Computed Based Own Survey Data, 2014

As can be observed from Table 4.5 above, on the average, producers were operating at 27, 35, and 49% of their respective capacity for micro, small and medium enterprise. The following chart compares capacity utilization of medium enterprises located at Yeka and Mesalmia sites. Producers occupying same size of working space at Yeka and Mesalemia sites are utilizing 41% and 54% of their annual capacity respectively as shown below.

**Figure 4.2.: Comparison of Capacity Utilization of Medium Enterprises by Sites**



Source: Own Survey Data 2014

Producers were also requested to identify the main reasons if they were producing under capacity and the following issues were raised as factors contributed for the low capacity utilization:-

- Dominant power of shoe marketing intermediaries;
- Absence of uniform and consistent implementation of the tax law, VAT in particular has created unfair and imbalanced competition in the market.
- Imports of cheap but substandard plastic shoes;
- Risks related to credit sales. Some of the problems explicated about marketing system encompass the wide spread of credit sales related risks i.e. require excess efforts and frequent request to receive, delay or default of payments;
- Lack of modern production technology and management system;

- Product and production technology similarities/less differentiated products supplied by most micro and small producers;
- Frequent electric power interruption;
- Problems related to bid purchase practices of organizational buyers;

#### 4.1.3. Domestic and Export Markets

Data obtained from producers (Table 4.6 below) shows that both domestic and export markets were served in 2013/14. Some of the producers had the access for export market opportunity through EIFCOS and MoT at the middle of 2013/14 destined to Kenya and afterwards it couldn't be sustainable for various reasons as producers proclaimed.

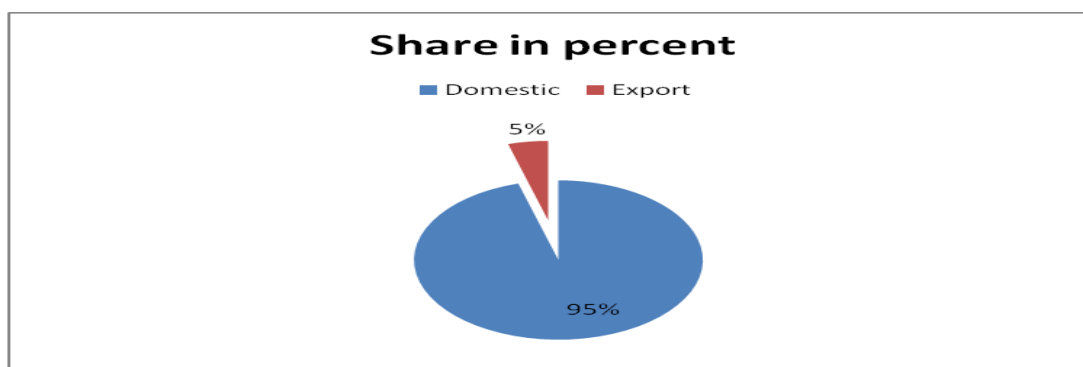
**Table: 4.6 Producers Supplied to Domestic and Foreign Markets (2013/14)**

Market destination	Frequency	Percent
Domestic	61	60.4
Both	40	39.6
Total	101	100.0

**Source: Computed based on owns survey data, 2014**

Table 4.6 above depicts that, 61(60.4%) of the producers supplied their output to domestic market only while 40(39.9%) of them sold for both domestic and export markets during the year 2013/14.

**Figure 4.3: The Share of Domestic and Foreign Market (in volume)**

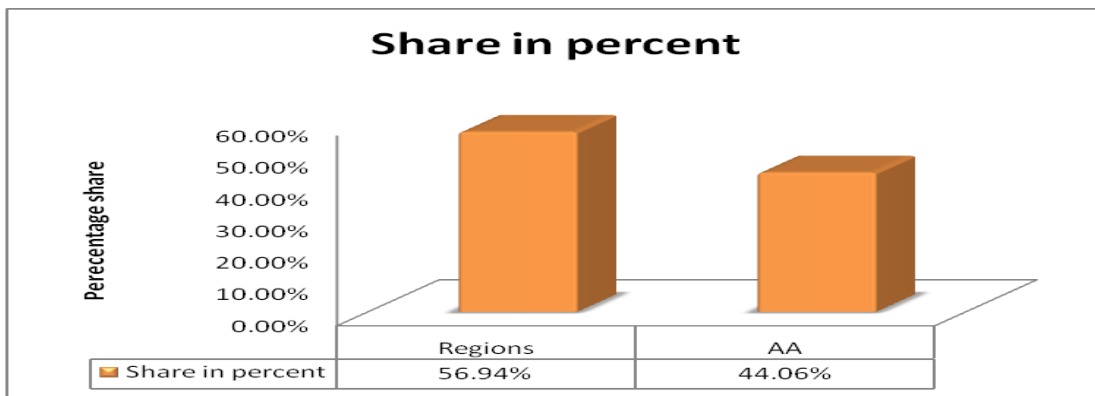


Source: Own Survey Data 2014.

The overall average share of domestic market was 95.5% while the balance 4.5% was destined to export market during 2013/14 as Figure 4.3 above clearly indicates. For those firms participated in the export market during the stated period, share of export ranges from 2-20%.

Concerning domestic market, both Regional States and Addis Ababa served as destination for the shoe producers. Figure 4.4 below demonstrates that the shares of Regions and Addis Ababa were about 56 and 44% respectively from the total sold in domestic market.

**Figure 4.4: Volume Share of Regional States and Addis Ababa**

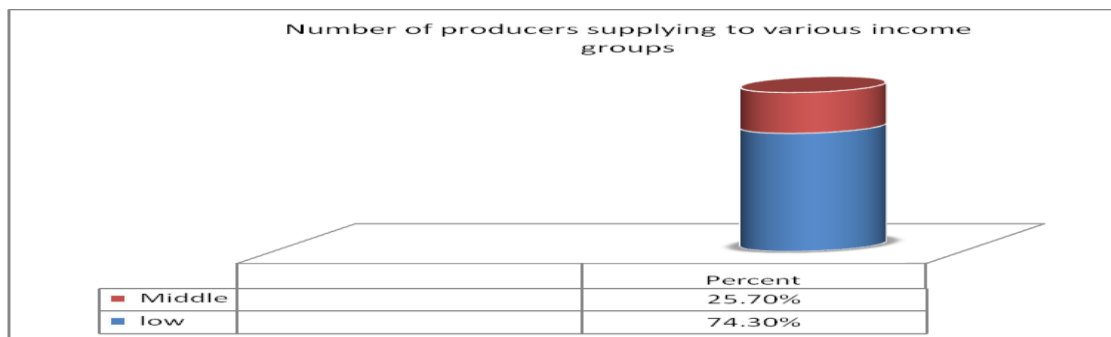


Source: Own Survey Data 2014

#### 4.1.4. Major Income Groups Consuming the Products

Respondents were asked to identify the key single major consumer income group buying their shoe products and as indicated in Figure 4.5 below, majority of the producers (74.30%) are producing for low income group while the balance (25.70%) targeted middle income group as their primary market.

**Figure 4.5: Producers Targeted Various Consumer Income Groups**



Source: Own Survey Data 2014

## **4.1.5. Market Segmentation Practices of Producers**

### **4.1.5.1. Practices of Mass Marketing or Segment Marketing**

The starting point for any market segmentation study or analysis is first to identify whether the producers are pursuing mass marketing or segment marketing. If producers are operating on the later modality, there is practice of market segmentation in place. The shoe producers were asked to state their current practice whether they are pursuing mass marketing or segment marketing. The response from all (100%) of the respondents found to be in favor of the later; they pursue segment marketing. They revealed that they are serving one or only few segments of the market. As explained in the previous sections of this study, producers are providing their products demographically to male adults, female adults, and children. And also geographically they supply to domestic and foreign market and in terms of income groups mainly to low income groups. In explicating the reasons for perusing segment marketing rather than mass marketing by excluding some parts of the market from their business domain, respondents mentioned the followings:

- ✚ Considering the benefit of specialization by focusing on a particular segment;
- ✚ Incorporation of additional segment may require change in shoe lasts (model), sole and some specific inputs and even equipment;
- ✚ Shortage of financial capacity, level of complication in production management process, the need for more market entry and penetration effort;
- ✚ The need for retaining the existing wholesalers and retailers which specialized in merchandising a single category of shoe for instance either for male or female adults only and producers refrain from inclusion of other types in order not lose their established market.



#### 4.1.5.2. Bases of Market Segmentation in Practice

In 2009, Kotler identified the four major bases of market segmentation. These are: Demographic, Geographic, Psychographics, and Behavioral. These market segmentation bases were presented to respondents to find out whether they are considering each in their existing practices. In response to the question asked respondent to answer ‘yes’ or ‘no’ whether they are using segmentation bases, all producers (100%) replied that they are applying some bases in their market segmentation practices. All the four major conventionally identified and recognized bases of market segmentation were presented to respondents to substantiate their application in practice. The bases presented to respondents include demographic, geographic, psychographic, and behavioral segmentation. The results are depicted in table 4.7 below.

**Table 4.7: Application of the Major Market Segmentation Bases**

Bases of segmentation	Response & percent	
	Yes	No
Demographic (age, sex, etc)	100%	0.0%
Geographic (foreign, region, Addis Ababa, etc)	100%	0.0%
Psychographic (personality, life style, etc)	87%	13.0%
Behavioral (benefit	100%	0.0%

**Source: Computed based on survey data, 2014**

The above table indicates that 100% the respondents replied ‘yes’ revealing the application of demographic, geographic, and behavioral segmentation bases while for psychographic segmentation 13% of them responded they do not use the base.

#### 4.1.5.3. Segment Selection Criteria Considered by Producers

Theoretically, in principle there are different criteria identified by marketing scholars and applied by many firms globally for effective segment selection. Kotler and Lane (2006) identify the following criteria for effective segmentation *measurability, substantiality, accessibility, Differentiability* and *Actionable*.

Accordingly, respondents were provided with the above list of conventionally identified effective segmentation criteria to confirm whether they are applying each in selecting a particular or few segments to serve.

Segment selection criteria of measurability, substantiality, accessibility, differentiability and the segment being actionable are under practices by all producers while measurability criteria is considered by only 14.9% of the respondents. The remaining respondents (85.1%) replied they don't consider measurability criteria at all.

**Table 4.8: Application of the Conventional Selection Criteria**

<b>Selection criteria</b>	<b>Number of respondents answered 'yes'</b>	<b>Percent</b>
Substantiality	101	100
Measurability	15	14.90
Accessibility	101	100
Differentiability	101	100
Actionable	101	100

**Source: Owns Survey Data, 2014**

Producers who replied 'no' for measurability criteria since it is a difficult task for them to measure various segments in numeric terms that ultimately needs some sort of market research which in turn requires both financial and knowledge resources capacity. As explained by that small part of respondents who are considering measurability criteria do not actually measure each segment's market potential in quantitative and numeric terms, but they monitor more closely and consider more seriously than that of others still practiced on judgmental mental exercise and guesses to comprehend the size of the market.

#### 4.1.6. Ratings of Suitability of Marketing Mix Offers to the Segments

Respondents were inquired to express their ratings of suitability of their marketing offers in terms of product, price, placement and promotion they are providing to their market segments (current customers). A five level Likert scale was used in rating the perception of producers about each of the four marketing mix elements' suitability to consumers where 1 represents very low suitability and 5 stands for a very high suitability. The result obtained is presented in the following table.

Respondents attached ratings from 3 to 5 and no respondent rated 1 or 2 to the product offered. The percentage of respondents rated 3 and 4 respectively comprised 29.9 and 57.4% of the total.

There are 13(12.9%) of the respondents assigned a rating of 5 claiming their product offer suits best to the needs and wants of the consumers (segment or segments).

**Table 4.9: Ratings of Marketing Mix Offers Suitability to the Segments**

Marketing mix element	Item	Ratings						
		1	2	3	4	5	Mean (5% Trimmed )	Standard deviation
Product	No. of respondents	0	0	30	58	13	3.81	0.63
	Percent	0.0	0.0	29.9	57.4	12.9	-	-
Price	No. of respondents	0	1	48	37	15	3.63	0.74
	Percent	0.0	1.0	47.5	36.6	14.9	-	-
Placement	No. of respondents	0	17	60	22	2	3.08	0.68
	Percent	0.0	16.8	59.4	21.8	2.0	-	-

**Source: Computed Based on Own Survey Data, 2014**

Regarding prices being offered, 47.5% of the respondents attached rating of 3. Respondents explained that the one to determine consumer prices are not producers but wholesalers and retailers.

Placement (distribution) of the shoe they are offering to the market, 16.8% of producers attached rating of 2. The rating of 3 was also given by majority of the respondents (59.4%) and ratings of 4 and 5 were assigned by only 21.8 and 2.0% of the producers respectively. The 5% trimmed mean value of ratings found to be 3.81, 3.63 and 3.08 for the three marketing mix elements (product, price and placement) respectively. The result in table 4.9 also depicts the associated standard deviation were 0.63, 0.74, and 0.68 for product, price and placement on their order of arrangement. Since no promotion activities that used to communicate consumers but personal selling efforts, which are suitable but restricted to contacting wholesalers and retailers in Addis Ababa.

#### 4.1.7. Ratings of Respondents about the Level of Difficulty of Switching

Producers were also asked to rate the level of difficulty in switching from the current segment(s) to others using a Likert scale of 5 points where 1 representing very low level of difficulty while 5 for very high difficulty to switch. Accordingly, the following results were obtained from the responses of producers.

**Table 4.10: Ratings on Difficulty of Switching from Current Segment**

Ratings	Frequency	Percent	Cumulative Percent
1.00	5	5.0	5.0
2.00	10	9.9	14.9
3.00	51	50.5	65.3
4.00	30	29.7	95.0
5.00	5	5.0	100.0
Total	101	100.0	

**Source: Own Survey Data, 2014**

As indicated in the above table, 81 (82%) of the respondents rated the difficulty to switch from one shoe market segment to the other as 3 and 4 while 15(14.9%) rated 2 and below viewing switching is easy. Only 5% of the respondents expressed their view by attaching rating of 5 to point out switching is very difficult.

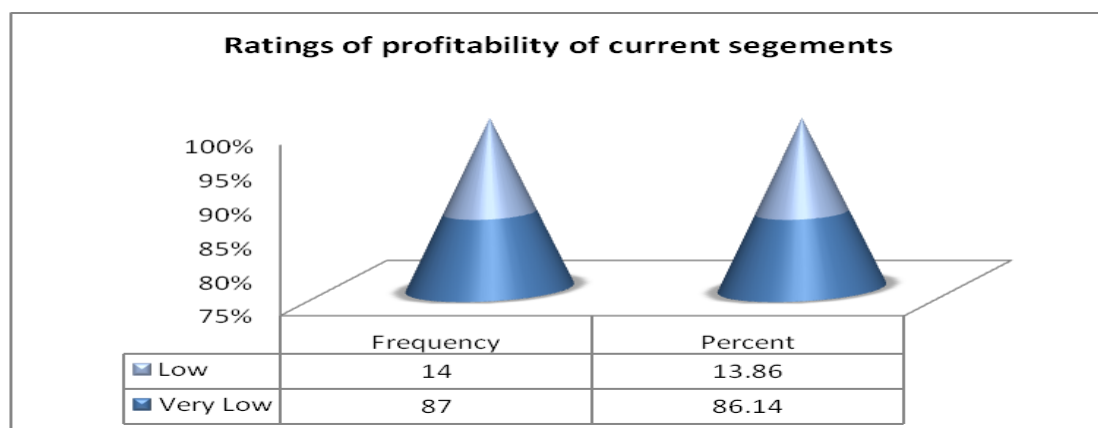
In response to the question asked to identify major reasons/factors/ that create difficulty if their initial rating are high, producers cited the following as causal factors for the difficulty of switching. These are:-

- ❖ The switching may necessitate the development of new and distinct shoe last model and sole which is costly at initial stage;
- ❖ Learning curve and specialization effects in production process efficiency (speed) and quality;
- ❖ Need for new market development, test and entry efforts due to existence of distinct marketing arrangement that may diverge from the current; and
- ❖ Need for use of separate equipment, management and even some inputs may be require.

#### 4.1.8. Profit Performance Ratings of the Segments

Producers rated the profitability of the segment(s) currently they are serving seven scale points rating (where 1 stands for loss, 2 for breakeven, 3 for very low profitability (as respondents call it ‘survival profit’), 4 low, 5 for medium, 6 for high and 7 is for very high profitability) was used to rate the profitability of the current shoe market segments producers are serving. The result obtained from the ratings is displayed in the following figure.

**Figure 4.6: Profit Performance of the Shoe Market Segment(s)**



**Source: Own Survey Data, 2014**

As shown in the Figure 4.6 above, the profit performance ratings of very low accounted for 87(86.14%) and low rating takes for 14 respondents (13.86%) according to the data obtained from producers. On the other hand, no producer responded rating of loss, medium, high and very high level of profit performances.

Comparison of the three groups of producers, all the 14 who replied low are in the medium category while those responded very low level of profit are in the small and micro groups. This indicates that there is variation in profit performance of the current segments served by different categories of producers.

#### 4.1.9. Possession and Sources of Unique Competency

Possessing unique competency in the market is a key factor for winning the race in competitive market. Respondents were required to express their view/perception on whether they owned unique competency that enabled them to compete better.

**Table 4.11: Response on Possession of Unique Competency at the Current Segments**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	29	28.7
No	72	71.3
<b>Total</b>	<b>101</b>	<b>100.0</b>

**Source: Own Survey Data, 2014**

Table 4.11 above shows that 72(71.3%) of the producers replied that no unique competency they possess in their current market segments. While the remaining 29(28.7%) consider that they own some kind of competency unique to them. The later listed those aspects on which they possess unique competency include resource, special knowledge and skill, better access to the segment(s), and image. Some respondents (2 out of 29) cited more than 1 factor as a source of their uniqueness in the market. In other words, the 2 respondents cited 3 factors each as sources of unique competency. The results are presented in table 4.12 below.

**Table 4.12: Sources of Unique Competency**

<b>Competency factor</b>	<b>Number of respondents</b>
Resource	11
Special knowledge & skill	5
Access to the market	13
Technology	0
Image in the market	4
<b>Total</b>	<b>33</b>

Table 4.12 demonstrates that no enterprise viewed itself possessing technological unique competency in its current market segments. In relation to resources (financial, physical, etc), 11 respondents claim that they have unique competency from owning better resources, while 5 of them declared that their unique competency originates from their special knowledge and skill as a source. For those producers who believe that they possess competency derived from image cited their brand names established for long years as a source of competency. Access to the market and image were cited by 13 and 4 enterprises respectively as sources of unique competency.

#### **4.1.10. Challenges in Segmenting Shoe Market and Implementation**

The producers were given open ended questions to point out the key challenges facing them both at segmentation and implementation stages. Accordingly, the following challenges had been identified by the respondents in segmentation stage of the shoe market

- Lack of adequate information on consumers;
- Low capacity to acquire to conduct formal assessment of the market;
- Knowledge gap in carrying out conventionally accepted market segmentation procedure in a formalized manner
- Attitude and awareness problems. Some respondents mentioned that there has been attitudinal and awareness problems among some producers that contributed to maintaining static conditions.

There are also other challenges revealed by producers which they encounter during implementation stage. These include:-

- ✚ The market system problems (lack of direct contact with the consumers, risk associated with credit sales, dominant role of intermediaries,);
- ✚ Serious shortage of financial resources;
- ✚ Lack of modern technology;
- ✚ Import of substandard cheap plastic shoes;
- ✚ Absence of trainings that match the needs of the producers;
- ✚ Long distance of Yeka site working premise from the major shoe market that serves as a main contact place in searching both for wholesalers and retailers coupled with undeveloped transport facilities in the Metropolis. As discussed before, the farthest distance of the premise at Yeka created convoluted problems in the sphere

of marketing, obtaining labor and raw materials, transportation and causes time wastage.

#### **4.1.11. The Views /Response of Management and Board Members**

The responses are summarized and presented as follows:-

The individual members are serving a particular market or few markets and though there is practice of segmentation, it based on previous traditional manner and lacks formalized analysis. In general, all the geographic, demographic, psychographic, and behavioral market segmentations are in practice among members as a whole though each firm is supplying to various segments. Basically no noticeable differences in segmenting the market among the three groups but there are varied practices in the implementation which ultimately depends on the existing capacity, market access, etc. The segmentation practices of individual producers basically performed based on intuition and judgment and not in a formalized and dossier based.

#### **4.2. Discussion**

Out of the 101 respondents, 89 are operating at Yeka site (in front of Yeka Michael Holy Water) while only 12 of them located at Mesalemia near Bilal mosque. This depicts that majority of the producers are concentrated at Yeka site. All producers operating at Mesalemia are holders of 100 m<sup>2</sup> space and no small and micro enterprises there whereas Yeka site accomodates all the three groups of producers..

The domicile concentration of respondents in Addis Ketema and Kolfe-Keranio sub-cities together accounted for 82.2% of the producers. It could be associated with the previous historical clustering of the shoe makers around Mercato and surroundings, where the major exchange center for inputs, finished shoes and serves as a hub for retailers and wholesalers both from Addis Ababa and regions. Producers working at Yeka site are forced to travel long distance to arrive the premises. Beside these, experienced and better efficient labor force is available in and the surroundings of Mercato. Laborers are not willing to travel to Yeka and if they do, producers should incur additional costs for transportation and meal to retain them. From these, one can easily understand that producers located at Yeka site are



facing serious problem both in traveling to working site, transporting inputs and their products aggravated by long-lasting and deep-rooted transport service problem in the Metropolis. This could have obvious adverse effect on their competitiveness as compared to those enterprises located around Mercato.

As findings show, it is obvious that shoe makers producing at Mesalemia site have clear locational advantage in respect to raw material supply, market, labor and information access due to its closeness to Mercato

The data on educational backgrounds of respondents generally indicates that significant proportion of the producers attained lower educational level. This situation, coupled with other factors could obviously have influence on the application of modern marketing principles and market segmentation in particular in formalized manner. Only 3 out of the 8 diploma holders do have educational qualifications directly related to shoe design and marketing.

As family based business start ups comprised the largest proportion of producers (73.1%) who have focused on preserving the established businesses with no fundamental changes in the structure of segments transferred from their families. The same is true for the businesses started through gaining experience from former employer and friends together accounted for 25.7%.

The result with respect to the type shoes under current production can be considered as the initial indicator of existence of market segmentation practices among producers. The finding implies that there is high concentration of producers in making adult male shoes. The next larger share goes to adult female shoes. There are only very few producers engaged in children shoes making by combining with either adult male, female types or both. According to producers, the main reason for highly skewed distribution of producers to male adult types of shoes can be associated with the ease in making, less frequent change in fashion or model and if the need arises, it can be managed easier than females and children. Unlike adult males' shoes, change in model for females is more frequent and requires discarding of the existing shoe lasts (forms), change of soles and even in some cases may demand changing the other inputs. As expressed by producers, the key

rationality for shying away from production of children shoes ascribed to the import of plastic made shoes from China in particular at relatively cheaper prices but with very short durability.

As the comparison between medium producers holding same size of working space and considered in similar level of resource basis but operating at different locations (Yeka and Mesalemia) shows noticeable differences in capacity utilization implying that the producers operating at the later working premise are in a better position of utilizing their capacities than the formers. Here, the result shows that location provides some advantage or the contrary that could lead to utilize capacity better or worst accordingly.

Though all the three groups are operating much below capacity, differences are observed among them where the medium enterprises perform better than small and micros. The micro enterprises are in the worst situation. Apart from this level of operating under capacity, none of all categories of producers declared loss in answering the question on the overall profitability of the segment(s) they had served during the last three years rather every firm had earned at least a survival level of profit according to the respondents. This paradoxical situation between low capacity utilization and profiting could be attributed to the absence or a very low level of overhead costs and strong cost containment deeds producers pursued according to some of the respondents. Though the result obtained reveals that the capacity utilization rate is low, the researcher has certain level of reservation on such lower operational performance that could be associated with data accuracy problem provided by respondents and suspects involvement of some degree of intentional underestimation of actual production since producers engaged in shoe production might have developed the tendency to hide the true actual production performance for reasons linked with tax payment.

Producers cited various reasons for operating much below their capacity including the unfair market system, lack of financial capacity, shortage of capable and ethical employees in Yeka site in particular. Distance between production site (Yeka where all the micro and small firms and very few medium ones are located) and market center (Mercato) has adversely affected utilizing their capacity. Imports of cheap but substandard plastic shoes

especially from China as mentioned before, have overwhelmed the market and contributed for under utilization of the existing capacity.

Both domestic and export markets were used as destination markets for the producers with the former being their major market during the year 2013/14. As per the result on domestic market shows, both regions and AA received shoes produced by the respondents with higher share went to the former. The dominant role of regions in consuming the shoe supplied by the producers implies that the rural population found to be the key segment.

A onetime export to one of the neighboring countries (Kenya) shows that the scope of the foreign market for the producers has been extremely narrow. Moreover, since the sustainability of Kenyan market is not guaranteed, the market for the producers seems to be limited to domestic consumers. Results also imply that no producer had solely supplied to export market during the stated period. In general, the finding in this respect implies that producers are predominantly depending on domestic market and regions play major role in consumption of shoes manufactured by the respondents under consideration though the share of AA is also significant. Both existence of domestic and export and regions and A.A as target markets, obviously imply that practice of market segmentation is in place among the respondents.

According to the response of producers to the question asked about the key major segment they are serving based on the level of income groups, all the micro and majority of the small producers targeted low income groups while those medium enterprises primarily supply to middle income groups. In this respect, there should be some qualification in the income group classification based on nationally accepted systems. Accordingly, the 'low income' should be qualified into 'upper lower' and 'middle lower' since the bottom 'lower-lower' income groups assumed not to have the capacity to buy shoes made of leather instead wear plastic or rubber shoes or walk on barefoot. The 'middle income group' also needs some modification that the sub-groups within that group are 'middle-middle' and 'lower middle' since the 'upper middle' consumers are inclined to buy better quality imported shoes or manufactured by large and highly mechanized modern factories locally. It should also be noticed that many of the producers are supplying some part of their products to their minor (secondary) market in addition to the major (primary) buyer groups.

All the producers responded that they are pursuing segment marketing rather than mass marketing. This has been confirmed by the results showing the manufacturing of different types of shoes for various demographic groups (male adults, female adults, children, and various income groups) and the supply of produces to domestic and foreign markets, regions and AA, different income groups all clearly indicate the existence of market segmentation practices among the shoe producers under consideration. The result on types of shoe produced also in conformity with the responses to the types of shoe producers are making where majority are engaged in single consumer category or a very few categories demographically. This is also consistent with the recent marketing theories and principles and also with prevailing global trends of divergence from mass to segment marketing unlike the practices of earliest periods of 20<sup>th</sup> century.

In explicating the reasons for exclusion of some part of the market from their domain and perusing segment marketing rather than mass marketing, respondents cited various issues forcing them to focus only on particular segment(s). The reasons revealed by producers are of both internal and external nature.

Moreover, since majority of the enterprises were transferred from families or copied from friends in the same way of doing business, the current operators are tended to maintain instead of starting from the scratch with new segment(s) or introducing fundamental change on the existing ones.

In connection to the use of the four conventionally applied bases of segmentation (demographic, geographic, psychographic and behavioral), respondents revealed that there is practice of applying the bases whenever segmenting is necessary. .

Respondents unanimously replied that they are applying demographic, geographic, and behavioral segmentations while some producers responded they don't use psychographic segmentation. The application of demographic segmentation confirmed by the results obtained in section dealt the on types of shoe produced by respondents based on different sex, age and income groups. Like demographics, geographic factors are also in use to segment the shoe market. The result under the section on market destination indicates that manufacturing of shoes both for foreign and domestic, regions and Addis Ababa (rural and urban) market shows that geographic segmentation is in practice.

Psychographic elements are also applied in segmenting shoe market as shoe consumption, among females in particular, are fashion and style oriented and greatly influenced by emotional/psychological factors. The use of psychographic bases of market segmentation among the respondents reflected by changes in models and design, addition of decorative features in making the upper part, and color variability especially for ladies.

On the other hand, the 'No' response from 13% of the producers for psychographic bases of shoe market segmentation comprises those producers manufacturing for old male consumers for who attach more importance to durability, safety and comfort features which are mainly of behavioral factors according to respondents. As the behavioral factors (like benefit sought by the consumers) comprise the basic essence of customer orientated marketing activity, behavioral bases of segmentation are used in shoe market segmentation practice of the respondents. Therefore, all producers use behavioral segmentation just to provide some varied benefits to the consumer.

Among the sub-components of behavioral segmentation (benefits sought) is used by the shoe makers which include safety, comfort-ability, and durability attributes and also occasion bases are also applied by some producers who make shoes for festival events. Though producers are considering the above mentioned bases of market segmentation, there is no formal practice but based on experience, judgment and intuition.

Though all respondents replied yes on the consideration of many of the selection criteria, it must be clear that like bases of segmentation, producers are not using formalized structure of selection criteria based on paper work and appropriate analysis but in most cases done intuitively on the basis of the long experience they have in the sector and information obtained on prevailing situations usually words of mouth and observation. In nutshell, all the firms collectively revealed that they are using some kind of selection criteria despite lack of formal procedures. Measurability selection criteria found to be overpasses by most of the producers and even those respondents answered 'yes' do not undertake measuring the market size in numeric terms but it is to indicate that they are considering more seriously than others in making judgments.

There are only little differences among the producer groups in practicing market segmentation bases and selection criteria. All are practicing on the basis of intuition and mental judgment in segmenting the market.

Ratings given by producers for suitability of their products to the existing market segments show moderate to high. Major proportion of producers (87.3%) attached rating of 3 & 4 which can be interpreted as moderate to high level of suitability.

Ratings of 3,4 and to a certain extent 5 and the relatively high mean value implies that producers are inclined to view the shoes they are producing are better suited to consumers notwithstanding the prevalence of noticeable gaps in quality, durability and other product features.

With regards to price suitability, the rating given by majority of respondents (84.1%) are 3 and 4 implying the prevailing prices they are offering to the market is very fair despite upsurge of the final consumer prices by the marketing intermediaries which is aggravated by involvement of two levels of wholesalers in some cases and retailers' behavior to add large markups that ultimately makes the final prices less suitable to the end consumers according to the respondents. The comparatively high standard deviations of price ratings indicate more variability and less agreement among respondents in viewing the suitability of the price to the segments being served.

Results obtained on suitability of placement/distribution/ shows that producers perceive as less suitable to their current consumers as compared to product and price. This results indicated that producers viewed placement practices are less suitable to the segments they are serving due mainly to long marketing channel and the tendency of retailers to add big mark ups according to the respondents. An example was cited by some producers that the marketing margin sometimes reaches 150%. Absence of direct access to wholesalers from regions and too cumbersome door to door contacting with retailers in AA is challenging endeavor for the producers as they complained. The low mean value of placement as compared to product and price implies existence of gaps along the distribution system in place according to views of producers. As there is no promotion activity, rating was not given by producers.

In relation to this, producers added that one of the major objectives of establishing the cooperative (EIFCOS) on the cluster business model was to alleviate the prevailing problems in the market linkage and distribution system. EIFCCOS as stated in the profiles of the organization section of chapter 1, it was initially envisaged that all the activities involved in the shoe value chain to consumers would be operated under the umbrella of the same organization with members to involve in specialized activities managed by strong coordination and integration. But commencement of operations in the envisioned business model form has not been successful so far for various reasons and currently individual producers separately striving to survive in the existing system.

As the moderate to high replies by greater part of the respondents on rating of difficulty of switching from segment to segment implies that it could be one of the impeding factors for the producers to make radical changes in product assortment that could suited to other segments that might be more profitable.

Majority of the producers, micro and small enterprises in particular attached scale of I representing a very low profit performance that restricted them only to maintain their survival which left them with hands-to-mouth way of life and with no surplus to reinvest in expansion/improvement of their business as desperately complained by the producers. On the other hand, the results on profit performance ratings of the medium enterprises revealed their profitability is better off as compared to the other two groups discussed before. This could be attributed to their better level of capacity utilization backed by enhanced financial and other capability aspects. In general, the result points out that the overall profit performance over the last three years period was positive among all enterprises and no producer had incurred loss or worked at breakeven consistently.

With respect to unique competency, majority of the respondents viewed that they don't possess any unique competency that could be an implication for the prevalence of strong competition from lack of differentiation and offering similar products through the same outlets and pricing system.

Very few of the respondents hold a unique competency based on some special training programs they participated in design and production. Better access to the market provided unique competency to few of the producers associated with ownership of retail and wholesale outlets and long superior product offers and long-established strong customer relationship.

The challenges raised by respondents are observed at two stages, segmentation and implementation stage. In the segmentation stage, the key problem encountered by producers includes lack of adequate market information to better understand consumers and get feedbacks on their products and other marketing mix elements and the capacity to carryout formal market segmentation practices.

Moreover, producers also face challenges in the implementation stage in the spheres of financial resources, marketing system, execution of tax laws, cheap and substandard imports, being disadvantaged from long distance of working premise at Yeka site and absence of suitable transport facility, lack of modern technology, and lack of market information.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This part contains summary of findings conclusions, limitations of the study and recommendations for the producers and various key stakeholders.

#### 5.1. Summary

This study was undertaken to assess the practices and challenges of shoe producers organized under EIFCCoS. In order to answer the research questions both quantitative and qualitative method were applied. Primary and secondary data sources were used to gather the necessary information. The primary data was collected from 101 producers and 4 Executive Board and Management members of the cooperative. This was supplemented by information from secondary sources like reports. Basic concepts and definition about market segmentation and implementation were stated in the review of the related literature. The opinions and perceptions of these respondents on existing market segmentation practices and challenges in gauged against conventionally recognized bases and selection criteria. The major findings obtained are summarized as follows:-

- ✚ The majority of the producers are under micro and small category that ultimately has implication on capacity problems in segmenting the market and implementation.
- ✚ Since more than 88% of the producers are operating at Yeka site and 82% reside in Addis Ketema and Kolfe Keranio which are relatively far from the main working premises mentioned above. Moreover, the main market center (Mercato) is far for those operating at Yeka as compared to members producing at Mesalemia and other competitors around Mercato.
- ✚ Significant proportion of producers attained lower level education that depicts they lack the necessary modern knowledge to perform appropriate market segmentation and implementation practices. The current shoe production business operated by more than 73% of the respondents are inherited from family that also has implication that the producers are leaned to stick to the existing production system for long period.
- ✚ As can be seen in the findings, production of shoes based on various segmentation bases depicts market segmentation practices are recognized among the shoe producers.

There has been high concentration in producing male adult shoes than female adults and children due to various factors. Generally, the market destination of producers is limited to domestic consumers.

- ✚ The findings clearly revealed that producers don't carry out their segmentation practices based on well-studied and formalized manner and also they do not pursue providing appropriate marketing mixes to their current segments at the implementation stage.
- ✚ Differences have been observed among the various groups of producers in utilizing capacity and profit performance where the medium firms are in a better position as compared to the small and medium ones in this regard. Moreover, the medium enterprises located at Yeka and Mesalemia sites exhibits significant differences in capacity utilization and profit performance. There are various factors mentioned by producers for lower capacity utilization that revolves around financial resource constraint.
- ✚ Majority of producers rated the difficulty of switching from one segment to another as moderate to high for the reasons stated in the results.
- ✚ Producers perceive that their products, prices and placement mixes are not in perfect mach to their current segments, the placement practice in particular.

## 5.2 Conclusions

- ♣ As producers are pursuing segment marketing rather than mass marketing, despite lack of formalized market segmentation practices in written manner, they take into consideration the use of widely accepted bases and criteria in their choice of segment(s) to serve whenever the need for segmentation arises.
- ♣ The high concentration on adult male shoe and lack of differentiation obviously entailed stiff completion among producers themselves that in turn created fertile ground for intermediaries providing powerful bargaining position.
- ♣ Internal capacity/capability problems, external constraints and inconvenient working location, difficulty of switching from one segment to the other coupled with underdeveloped transportation system hindered the application of appropriate market

segmentation and implementation based on globally recognized conventional practices. This prevailing situation in turn adversely affected their production capacity utilization in terms of working space and then profit performance at their current segment(s). Individualized efforts together with low capability couldn't bring fundamental improvement among producers and the need for cooperation and working together is the only way out to extricate from the long-lasting obstacles.

- ♣ The differences in capacity utilization and profit performance among the three groups of producers and those within the same group of medium enterprise located in the two sites has the implication for the need to treat differently in providing any support towards addressing the problems. The very low profit performance of majority of producers contributed the absence of improvement/expansion of the existing production and marketing system due to lack of surplus to reinvest. Had it been for the problems identified by producers been alleviated and utilize their capacity better, the profit performance would be very high considering the profitability at the existing capacity utilization level.
- ♣ Difficulty of switching from one seemed to another contributed in preventing producers from altering segment(s) that might be more profitable and are forced to stick with the established system and with existing ways of doing business. The high concentration of producers on male shoe production and absence or low level of product differentiation among the many producers has made the competition stiff and provided opportunities for the intermediaries to hold the upper hand in bargaining power. Absence of significant differences in unique competency among the respondents brought about stiff competition.
- ♣ As the money contributed by each producer in the cooperative is deposited in block account at DBE, micro and small producers could not withdraw and use the cash to tackle minor shocks. As a result, micro enterprises wholly and small enterprises to a large extent are entangled in difficult situation. As a final outcome, unutilized potential capacity has been wasted.
- ♣ Lack of integrated (full-packaged) support by the government together with the low financial capacity of majority of producers resulted in unexpected and unbearable procrastination of the process for EIFCCOS to commence operation as envisaged and ultimately that has led to desperation of all members and evacuation of many members

from Yeka site and develops skepticism and dilemma among producers to stay or leave the premise there.

### **5.3 Limitations of the Study**

Though 175 producers have acquired working premises provided by the Government at Yeka and Mesalemia localities, only 124 are operating intermittently or constantly. The remaining 51 owners evacuated from the premises for the main reason of undesirable delay in commencement of operation by EIFCCOS far beyond their expectation. According to information obtained from the EIFCCOS' management members and other producers, the whereabouts and status of these producers couldn't be traced easily since some of them have withdrawn from the sector due to capacity problem aggravated by dislocation from Mercato and for the reason stated above. Hence, the researcher was forced to restrict the population to 124 and draw the sample from. Despite repeated calls made to the selected Board Members and appointments fixed accordingly, it was possible to reach only two of them due to various reasons.

### **5.4 Recommendations**

Based on the findings and conclusions, the study recommends the following points:-

- ♣ To conduct and implement a formalized market segmentation practice aimed at developing well formulated marketing strategies to reach unexploited segments both in foreign and domestic markets, extricating producers from the long lasted but underdeveloped production and marketing system and making use of deposited money in block account, immediate attention should be given to transformational initiatives of EIFCCOS to commence operation as planned through integration of all the value chain activities with specialization of individual producer in specific task. To realize this objective, the major constraint stemmed from inadequacy of the deposited fund to acquire all the modern technologies and inputs should be addressed through provision of loan guarantee from the government or by allowing the cooperative to present the buildings that had been provided by the government to the producers for serving as working premises at Yeka and Mesalmia as collateral to the

DBE. Considering the large number of the cooperative members who planned to engaged along the value chain, the potential for creation of job, foreign exchange earning potential, that all are in line with the government efforts towards realization of GTP objectives in the manufacturing sector. According to The Federal GTP of Ethiopian Government (2010), due attention will also be given to the development of medium and large scale industries as well. Leather and Leather Products Industry has been identified as one of the industries for receiving special support from the government.

- ♣ Until the new system implemented, the cooperative should take initiatives in supporting producers in searching new markets segments like organizational buyers and provide space for raw material suppliers in the compound to create easy access for producers on credit basis.
- ♣ Providing capacity building training supports EIFCCOS and its members in the areas of fundamental issues in marketing, segmentation in particular; design, production, quality control, use of modern technologies/machines, market information and promotion should be provided both by the government through LIDI, and UN agencies including UNIDO and UNDP, other donors and BSOs like COMESA, and others. The recent visit made by the Director of UNIDO in Ethiopia believed to create good opportunity for obtaining support for the industry sector, in which the leather sub-sector is a priority in government policy. More support should be geared to the most constrained small and micro producers.
- ♣ The government should strengthen the tax law execution capacity in uniform and consistent manner among the various actors of the leather sector that could create plain ground for completion in and around Mercato.
- ♣ The government also needs to develop mandatory standards for imported shoes to protect the consumers from buying substandard products and high expenditure from frequent buying and domestic producers from unfair imported competition. In the same token, establish strong monitoring and control system to enforce the implementation of the standards.
- ♣ In the short run, to alleviate the constraints created by long distance of Yeka site from the main market centre and residences of majority of the producers, it is

recommended for EIFCCOS to rent buses and small trucks to provide common transportation service by charging fees that cover cost and operate on pre-agreed schedules to use the service more efficiently. This initiative should be undertaken in consultation with producers and their full determination to provide cooperation in proper use of the service. The cooperative also should find means for providing meals and other services at prices lower than or equivalent to what is prevailing in Mercato to attract laborers.

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