Impact of Market Segmentation Practices on the Profitability of Small and Medium Scale Enterprises in Hawassa City: A Case Study

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Abstract

This study is designed to assess the impact of market segmentation practices on the profitability of small and medium scale furniture manufacturing enterprises in Hawassa city. The findings of this study also revealed the levels and bases of market segmentation used in the enterprises as well as their relationship with profitability as its major findings. Almost all the enterprises gained moderate and substantial profits by implementing market segmentation practices in their enterprises. However, they were also found with a problem of selecting appropriate levels and bases of segmentation. Moreover, they were facing difficulties in evaluating the   effectiveness of their segmentation practices which prohibited them from generating high profits from their segments. Based on the findings of the study, the researcher has forwarded some recommendations to the owners and managers of small and medium scale furniture manufacturing enterprises which are found in Hawassa city.

Key words: Market segmentation, Profitability, Small and Medium Scale Enterprises

1. Introduction

Market segmentation involves the grouping of customers with similar needs and buying behavior into segments, each of which can be reached by a distinct marketing program. The concept attempts to reconcile differing customer needs with limited company resources, and allows product and marketing offerings to be adjusted to suit different customer groups. Sub-dividing customers into groups with similar needs and wants leads to effective customer service, profitability and also puts a company at a competitive edge against competitors. The main aim of the paper will be to assess the impacts of market segmentation practices on the profitability of small and medium scale manufacturing enterprises, particularly in furniture manufacturing companies.

2. Small and Medium Scale Enterprises

Small and medium scale business is a business which is independently owned and operated, not dominant in its field of operation and meets certain standard of number of employee and capital. A small and medium business has at least two of the following features (US Congress, Small Business Act 2003):

- Management is independent, since the manager usually owns the business.

- Capital is supplied and ownership is held by an individual or a few individuals

- The area of operations is primarily local, although the market is not necessarily local.

The business is small in comparison with the larger competitors in its industry.

3. Objectives of the study:-

The general objective of this study was to assess the impacts of market segmentation practices on the profitability of small and medium scale manufacturing enterprises.

To identify which level of market segmentation such as segment marketing, niche marketing, local marketing and individual marketing lead to profitability

➢ To Identify which base of market segmentation such as

demographic, geographic, behavioral and psychographic contribute to the SMEs profitability

➢ To Identify how the enterprises' segments effectiveness influence their profitability

➢ To Determine how the implementation of market segmentation practices affect the profitability of the SMEs

➢ To Present possible suggestions and recommendations to marketing managers of Small and medium scale enterprises to aid in their decisions.

4. Research Methodology

It covers the data sources, the sampling technique, measuring instrument, data processing and analysis.

Data sources

In order to attain the objective of the study, the researcher has used both primary and secondary data sources. The primary data was collected directly from the sample respondents through a questionnaire. Secondary data including different relevant books, manuals, reports, journals, internet which are relevant to the topic under study were also used.

Sampling Technique

Probability random sampling technique is followed in the study. This technique was used in order to ensure every item of population has an equal or non-zero chance of being selected. Before conducting the study information was gathered from Hawassa city Trade and Investment bureau regarding the total number and type of small and medium scale enterprises available in the city.

Market Segmentation Questionnaire

Market segmentation questionnaire and Profitability questionnaire was developed to assess the level of market segmentation used in the sample SMEs, segmentation bases used in the sample SMEs and the effectiveness of market segments in the enterprises.

Each of the questions consists of five response choices weighted in the following manner.

Response choices	Scoring weight
Very low	1
Low	2
Medium	3
High	4
Very high	5

A percentile score of 75 or higher indicate a high degree of using the mentioned market segmentation practice ; a percentile score of 25 or lower would indicate a low level; and, the scores in the middle range that is from 26 to 74 of percentiles indicate average usage.

Profitability questionnaire was developed to measure the effects of using market segmentation practices on the profitability of the enterprises based on the level, base and effectiveness of the sample SMEs's segmentation practices. A percentile score of 75 or higher indicate a high degree of profitability; a percentile score of 25 or lower would indicate a low level of profitability; and, the scores in the middle range that is from 26 to 74 of percentiles indicate average profitability.

Data Processing and Analysis

The data processing method for the study will be manual and aided by computer software packages. Editing, coding, classification and tabulation of data was used to detect errors and to summarize bulky data into manageable one.

Descriptive analysis was used to summarize the data by tabulation, measure of central tendency and charts. Tabulation was used to arrange the data in a table format. Measure of central tendency was employed to see the minimum and maximum values, the mean and the standard deviation for the sake of explaining level of market segmentation and bases of market segmentation used in the sample SMEs, and also the effectiveness of market segmentation implemented in the enterprises. Moreover, charts like bar charts, pie charts and histograms

were used to describe the demographic characteristics of the respondents.

Statistical techniques

The equation of multiple regression on this study is formed based on two sets of variables, namely dependent variable (profitability) and independent variables (level of segmentation, bases of segmentation and effectiveness of segmentation). The basic objective of using regression equation on this study is to make the researcher more effective at describing, understanding, predicting and controlling the stated variables.

Statistical package for the social sciences (SPSS) version 20 statistical program is used for the analysis and presentation of the data for this study. Sixty questionnaires were distributed to the respondents and out of the 60 questionnaires 51 of them were collected. Among the 51 collected questionnaires 3 of them were incomplete which does not provide relevant data for the study. Accordingly the analysis of this study was done based on the number of questionnaires collected. Total Population is 120 (100%) and sample size is 48 (40%).
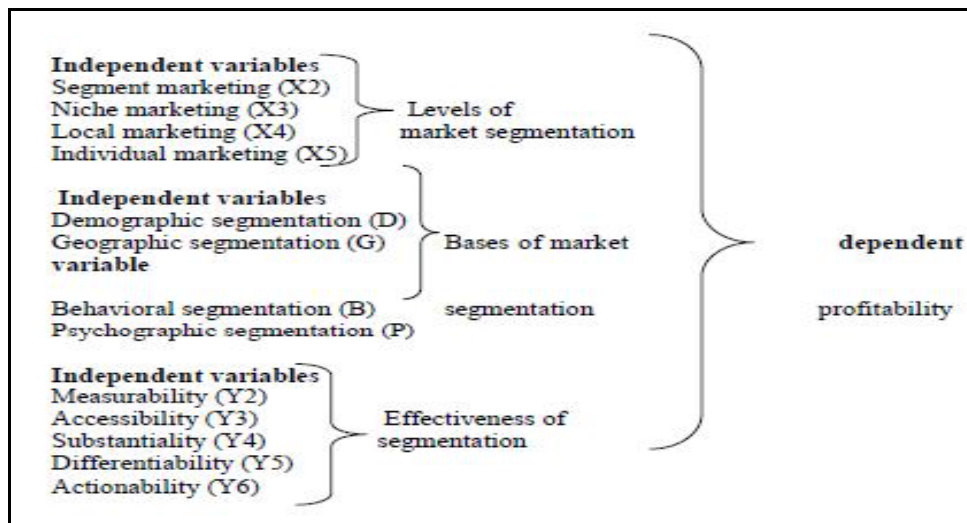
5. Analysis of the study

Demographic variables: A profile of 48 sample respondents consisting of marketing managers and owners of small and medium scale enterprises who participated in this study are summarized in the form of frequencies and percentages and presented graphically for each of the variables.

Gender distribution of respondents

Fig 4.1 Gender distribution of respondents
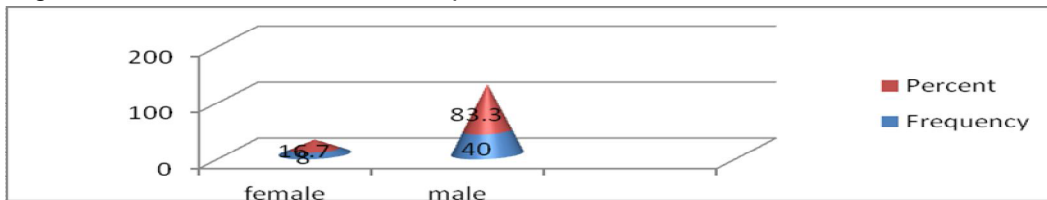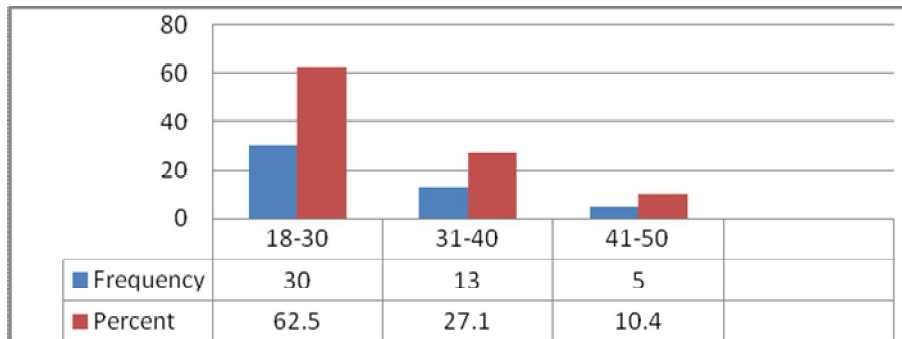

Source: developed for this research

Fig 4.1 above presents a graphical representation of the gender distribution of the selected sample. There are a large number of male respondents (n=40), which is 83.3% of the sample. The female respondents (n=8) comprise 26.5% of the target sample respondents.

Age distribution of respondents

The age distribution of the sample respondents is depicted in the following graph.

Fig 2 Age distribution of respondents

|	18-30	31-40	41-50
■ Frequency	30	13	5
■ Percent	62.5	27.1	10.4

Source: developed for this research

Fig 2 above describes how the age of sample respondents were distributed among three age categories. The majority of the respondents (62.5% or n=30) were between 18 and 30 years old. n=13 or 27.1% of the respondents were between the age of 31 and 40 years old. The remaining respondents i.e. n=5 or 10.4% lies between 41 and 50 years of age.

Educational level of respondents

Fig 3 Educational level of respondents
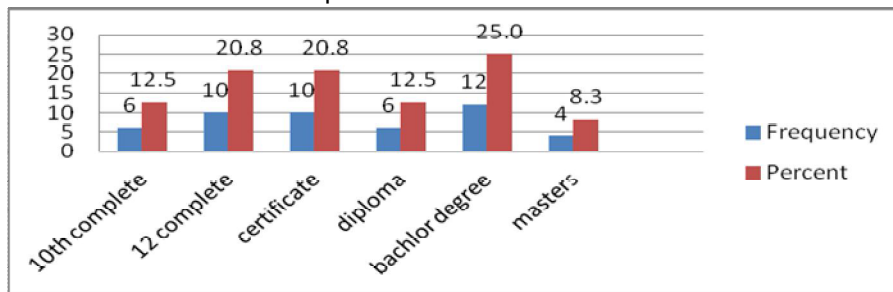
Source: developed for this research

Figure 3 above shows that the educational level of the majority of respondents (25% or n=12) are first degree holders followed by 12 complete and certificate graduates each comprising n=10 or 20% of the sample respondents. Diploma holders and 10th complete respondents constitute n=6 or 12.5% of the respondents each. The remaining n=4 or 8.3% are second degree graduates.

4.   Current job position of respondents

Fig 4 Current job position of respondents
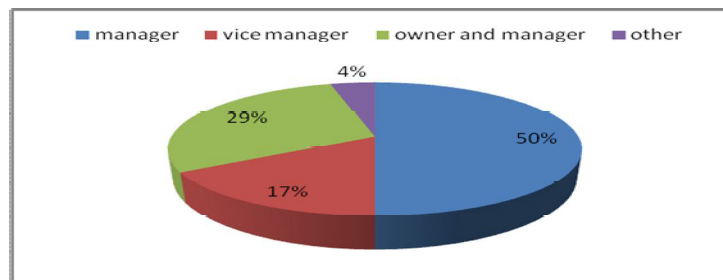
Source: developed for this research

Figure 4 above shows the current job position of respondents indicating that most of the respondents are managers and owner and managers of the enterprises comprising 50% or n=24 and 29% or n=14 respectively. 17% or n=8 of the respondents are vice managers and the remaining 4% or n=2 respondents are engaged in other activities of the enterprises.

Table 1 Results of profitability segment marketing

	profitability with segment marketing	profitability with niche marketing	profitability with local marketing	profitability with individual marketing
Mean	1.6458	4.1667	1.8125	1.6458
Std. Deviation	.72902	.75324	.93754	.72902
Minimum	1.00	2.00	1.00	1.00
Maximum	4.00	5.00	4.00	4.00

Source: developed for this research

Profitability of the enterprises within the level of market segmentation used was assessed by profitability questionnaire; table 1 above indicates the calculated arithmetic means and standard deviations for the profitability of the enterprises under segment marketing, niche marketing, local marketing and individual marketing segmentation levels. Therefore, it is possible to say that most of the enterprises are profitable under niche marketing segmentation level with a mean and standard deviation of 4.1667 and 0.75324 respectively. Table 4.2 also shows that local marketing segmentation level is the less profitable segmentation level for the sample SMEs with a mean of 1.8125. The least profitability of the enterprises was found under Segment marketing and individual marketing segmentation level with a mean of 1.6458 each.

Table 2 Results of the profitability of market segmentation bases used in the sample SMEs

	profitability using demographic segmentation base	profitability using geographic segmentation base	profitability using behavioral segmentation base	profitability using psychographic segmentation base
Mean	4.3125	1.5417	3.7708	1.3750
Std. Deviation	.87898	.77070	1.03635	.56962
Minimum	1.00	1.00	2.00	1.00
Maximum	5.00	4.00	5.00	3.00

Source: developed for this research

The profitability of the segmentation bases used in the SMEs as indicated on table 2 above, shows that demographic and behavioral segmentation bases are the most profitable bases for the sample SMEs with arithmetic mean of 4.3125 and 3.7708 respectively. The geographic and psychographic segmentation bases are found less profitable in the sample SMEs with a mean score of 1.6667 and 1.6383 respectively.

Table 3 Results of profitability with current Effectiveness of Segments in the sample SMEs

	Average Effectiveness of segments	Profitability with current effectiveness
Mean	2.19726	2.21912
Std. Deviation	.40177	.45725
Minimum	2.00	2.00
Maximum	3.80	4.00

Source: developed for this research

Regarding with the profitability of the sample SMEs with current effectiveness of their segments, as it is clearly shown on table 3 above, it can be said that they are less profitable with a mean score of 2.21912.

On the other hand, table 4 above, indicates that there is a very low positive, but not statistically significant relationship between individual marketing segmentation level and profitability (r=0.189, p>0.05) and segment marketing segmentation level and profitability (r=0.189, p>0.05).

As it is clearly depicted on table 4.5 below, the correlation coefficient results for the relationship between segment effectiveness and profitability, there is low positive relationship between segment effectiveness and profitability (r= 0.240, p<0.01) at 99% level of confidence.

Table 4 the relationship between levels of market segmentation and profitability

Segmentation Levels used in the sample SMEs			Level profitability
Segment Marketing segmentation level	Marketing	Pearson Correlation Sig. (2-tailed)	.189 .197
Niche segmentation level	Marketing	Pearson Correlation Sig. (2-tailed)	.689** .000
Local segmentation level	Marketing	Pearson Correlation Sig. (2-tailed)	.338* .019
Individual segmentation level	Marketing	Pearson Correlation Sig. (2-tailed)	.189 .197

*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed). Source: Developed for this Research

Table5: The relationship between effectiveness of market segments and profitability

Effectiveness of segments in the sample SMEs	Profitability
Segments Effectiveness Pearson Correlation Sig. (2-tailed)	.240[**] .000

** Correlation is significant at 0.01(2- tailed). Source: developed for this research

5. Conclusion and Recommendations

This study was conducted to investigate the impact of market segmentation practices on the profitability of small and medium scale enterprises in Hawassa town. The following conclusions are drawn based on the findings of the study.

The results of the study showed that most of the small and medium scale enterprises are operating under Niche marketing and individual marketing segmentation levels. In contrast segment marketing and local marketing segmentation levels are used and implemented by few of the sample enterprises. The findings of the study also revealed that niche marketing segmentation level used in the sample SMEs results high mean score and substantial relationship with profitability. Regarding with local marketing moderate relationship was found with profitability. But, the profitability of segment marketing and individual marketing segmentation levels resulted in very low mean score as well as very low relationship with profitability.

Recommendations

Based on the results and findings of the study, the researcher would like to forward the following recommendations to the owners and managers of small and medium scale enterprises found in Hawassa town.

➢ Most of the sample Small and medium scale enterprises were found

operating under niche marketing and individual marketing segmentation levels. Thus, SMEs should leave those segmentation levels which require high level of capital and resources and concentrate only in niche marketing and local marketing segmentation levels which are more feasible for small and medium scale businesses. Therefore, by allocating and efficiently utilizing their limited resources in niche and local marketing, the enterprises could their moderate level of profitability to higher level of profit.

The sample SMEs were also found less profitable in relation with their segments' effectiveness. One way to increase their profitability in terms of their segments effectiveness is evaluating their segments effectiveness in terms of the extent to which their segments are measurable, accessible, substantial, differentiable and actionable by conducting market segmentation research.

Regarding with the overall implementation of market segmentation and profitability of the enterprises, the substantial contribution of market segmentation can be further increased to higher level of profitability through customer data base driven market segmentation. Each enterprise must research on the tastes and preferences of the target segment if they have to offer satisfying products to their customers and get high return. In addition, enhancing prospect identification, matching of customer needs, improving target communications, enhancing customization and customer service, improving innovation and creativity is also recommended to the enterprises to achieve higher profitability.

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