Market Segmentation of Thai Herbal Products: The Southern Thailand Market

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Abstract

Herbal products, including cosmetics, medicinal products and food items, are an important potential export industry for Thailand, although there have been problems with product quality and meeting international standards. Consequently, it is important to develop the domestic market for these products and the marketing of the industry can be improved by better application of marketing segmentation techniques. This paper reports on a quantitative study of 200 respondents in the South of Thailand with a view to identifying specific market segments in that area. The results are used to form recommendations for practitioners.

Keywords: herbal products, market segmentation, Southern Thailand

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1. Introduction

Thai herbal products are among the most prominent and beneficial products made available by the One Tambon One Product (OTOP) agricultural product scheme of Thailand. They are now promoted as potentially economically important plant products. Thailand has a lot of valuable herbs and Thai people have the know-how to manufacture value-added herbal products and they want to internationalize these products. Thai herbal product manufacturers can convert herbs into several types of herbal products, such as 1) cosmetics as in body
lotions, soaps and skin creams; 2) health supplements; 3) medicines and 4) food products. These herbal products are among many that OTOP can potentially promote and upgrade for international markets.

The world trends for consumption of herbs and herbal products show gradually increases during the past two decades. The United Nations Statistical Office and International Trade Center have reported that the world market value of herbal products increased by 222.9% between 1980 and 1986. In Thailand, more and more herbs and herbal extracts are being used in everyday life. Herbs are used as raw materials in industrial products such as cosmetics, foods and health supplements and medicine (Minister of Commerce, 1989).

Production and consumption of herbs is becoming more and more internationalized. Market structures for herbs and herbal products are different worldwide. The supply of herbal extracts for medicinal products, most of which must be imported from developing countries, has decreased gradually. The quality and quantity of herbal products are, therefore, less reliable and include some counterfeit substances. This is due to the scarcity of herbs in the developing world. Moreover, it takes a longer time and a huge amount of expenditure to produce new herbal products that are safe. Synthesized medicines are more convenient to produce, are of better quality and are safer for customers than are herbal products. The production of herbs for making medicines has, therefore, been reduced. More herbal products are made in the form of food and health supplements and cosmetics. The production of herbal products for these purposes needs less complex procedures and has fewer limitations than when they are used to produce medicines. As a result, the demand for herbs in general is increasing. Countries that import herbs include the USA, Canada, Japan, Switzerland, Hong Kong, the People's Republic of China, Germany, Italy, the Netherlands, Belgium, Luxemburg, the United Kingdom, Ireland and Denmark; while the exporting countries are the USA, France, Ireland, the United Kingdom, Japan, Mexico, Brazil, Spain, Poland, Italy, Argentina, India, the Philippines, Costa Rica,
Problems in cultivating Thai herbs in Thailand include insufficiency of knowledge and technology, a lack of good seeds and, therefore, a lack of raw materials for herbal products. In addition, product quality does not always meet international standards and market requirements. Also, not many people are interested in using herbal medicines, since they do not realize how good the quality of the herbs is. Some people use herbal medicine as an alternative treatment only as a last resort for curing fatal diseases. Marketing problems for herbal medicines include low quality because of counterfeit substances, wrong means of storage and limited marketing in both national and international markets. At the 21st Natural Product Expo West on 8-11th March, 2001 in Anaheim, California, there were comments that Thailand should make the most use of its herbs and make them world market products. The production of herbal products should comply with a country's laws, according to the Food Supplements and Cosmetics Act and the products must be up to standard in terms of quality and safety and effectiveness, otherwise this will result in bad reputation for both the products and the country (Wongyai, 2001).

The present study is, therefore, aimed at illustrating the quality of Thai herbs and their potentiality as industrial products, as well as to illustrate a clearer view of their market segmentation and to survey consumer behaviour in the market. The area of study is limited to the market segmentation of Thai herbs in the south of Thailand.

2. Research Objectives

The purpose of this paper is to identify distinct market segments of Thai herbal products in the southern part of Thailand. The study aims to:
1. Identify market segments of Thai herbal products in the southern part of Thailand using distinct criteria for market segmentation. This information will benefit OTOP operators and other entrepreneurs in herbal products;

2. Explore customer behaviour in each market segment so that the businesses can target their particular market and start the business professionally;

3. Provide those responsible for manufacturing, preserving and marketing Thai herbal products with a clearer picture of herbal markets to help them in their decision making in market plans.

3. Related Literature and Research Framework

Market segmentation was first defined by Wendell Smith (1956) as viewing a heterogeneous markets, in response to differing preferences, attributable to the desire of consumers for more precise satisfaction of their varying wants (cited in Foscht et al., 2010). Marketing researchers recognize differences between groups of consumers to be opportunities in the market. Market segmentation involves the identification of segmentation variables followed by segmentation of the market. This leads to market targeting, i.e. an evaluation of the attractiveness of the obtained segments and a selection of the target segment(s) (Raaij & Verhallen, 1994).

Bases for segmenting consumer market include two major constructs of consumer characteristics and consumer response or behaviour. Consumer characteristics can vary from their geographic, demographic and psychographic influences. Consumer response or behaviour depends on the occasions, benefits, usage rates and attitudes of the consumers (Kotler, 2003).

Although the term “Market Segmentation” is well known among marketers, some forget or ignore the importance of segmentation in marketing planning. Professor John Howard, an expert in marketing at the University of Columbia, explained that
consumer needs analysis and market segmentation are the two most important stages in the whole process of market planning. John Berrigan, a marketing expert regards market segmentation as the “Holy Grail” of marketing strategies. Kenneth Roman, the former president of the administering committee of Ogilvie and Mather Worldwide explained that in the super large scale of the world market with very large consumer choices and needs, it is difficult to satisfy such a variety at the same level of services or products. Market segmentation is, therefore, an important factor to manage the limited resources to suit the target consumer group (Torsuwan, 2005).

Market segmentation is conducted by analyzing the needs or responses of a particular group of consumers. Almost all authorities in marketing proposed four factors of marketing segmentation, including demographic, geographic, psychographic and behavioral factors. Successful market segmentation entails more than one of these four factors. In practice, however, some business sectors base their market segmentation on only the demographic factor and this leads to unsuccessful marketing of the products, as consumers are not similar in their consumer behaviour.

Nokia is one of the international enterprises that bases its marketing plans on market segmentation. Resulting from its large scale research, Nokia divided marketing segments by the factors relating to consumers’ usage, life style and individual preferences. Nokia divided its market into six segments, including 1) the basic users who use their mobile phones for making and answering calls only and so they want a strong, long-lasting mobile phone. 2) Personal expression users are those who want elaborate and unique features on their mobile phone. 3) Classic users are those who like the classic (not very fashionable in design) type of mobile phone. 4) Fashion users refer to those who favour a small, attractive phone. 5) Premium users are those who are attracted to new technology and an expensive design and 6) Communicator users are those who prefer both communication and wireless networking features. According to this marketing
segmentation, Nokia manages its marketing plan and designs of products in a series for each market segment. Starting from the 8500 series, it developed into the 8800 series for the premier group and the 9300 series was developed for the communicator group, and the latest series is the 7360 “Lamour Collection” designed for the fashion group. As can be seen, each Nokia version differs not only in the product itself, its packaging, and its marketing communication but the design of each version is for a particular target group. Nokia can use product segmentation to divide the target groups using different criteria (it does not based only on demographic features) so it can create a marketing plan for each of them effectively.

GM (General Motors) is another example of an enterprise that is successful in the market. During the 1920s, GM suffered terrible losses but when Alfred Sloan (who later earned the reputation of being the most competent business administrator) took over the administration. He saw that GM produced seven designs of cars which did not very much differ from each other, causing overlaps in marketing. He reduced the number to five and made the five designs of GM cars definitely different from each other in terms of both products and prices to satisfy different customer groups. Following this product segmentation, GM achieved 56% of U.S. market share by the end of the 1950s. Later, after GM brought in a new administrative team who did not follow Sloan’s product segmentation, they produced five designs of GM cars which were not very much different from each other in order to reduce costs. This resulted in the company losing a huge market share to Japanese cars and luxury cars from Germany. Some designs of GM cars have gone off the market and the rest were ranked as only the fourth and fifth best in the world car market. Although market share cannot be claimed to be the only factor for business success, it cannot be denied that it is the starting point for success for Nokia as the world's number one in the mobile phone market.
Marketers should, therefore, not ignore product segmentation but also not depend only on the demographic data of the customers and instead they should consider market share or market segmentation by different criteria and the results can be used in product development plans. The information on customer lifestyle, purchasing behaviour and the media they receive should be included in making effective market plans for successful sales like Nokia and learned from GM which suffered a big loss (during that period of time) from ignorance of this significant step to success (Torsuwan, 2005).

The present study employed demographic, psychographic, and behavioural basis as the criteria for the market segments of Thai herbal products.

4. Research Methodology

This study is exploratory research and is aimed at exploring the segmentation of Thai herbal products in the southern part of Thailand. The sample taken was of 200 consumers of Thai herbal products randomly selected from those living in Songkhla province. The sample size was based on the ad hoc method, which indicated that for a regional or special group, the sample size can be 200-500 (Sudman, 1976, cited in Aaker et al., 2011).

The research instrument for collecting data was a questionnaire, piloted with 20 herbal product consumers in Bangkok and neighbouring provinces. Hierarchical Cluster Analysis was used to analyze the market segmentation of the herbal products in the south of Thailand and descriptive statistics were used to show market sizes.

5. Findings

The characteristics of the research samples are presented in the three categories.
The demographic characteristics of the research samples are presented as follows. Most of the research subjects were female (58.0%), aged 19-25 (28.5%), 41-50 (19.0%) 31-40 years (16.0%) and 26-30 years (14.5%). Most of the subjects had 3-5 people in their families (66.0%). Most were single (57.0%). Those who were married had children older than six years (18.5%). Most were in the other work category group including school students, university students, traders, plantation owners, housewives, civil servants, retired civil servants (38.0%), followed by business owners (20.5%), civil servants (15.5%) and private sector employees (12.5%). Regarding education, most were secondary school and college graduates (44.5%) or university graduates (39.5%). Most of them were Buddhists (90.0%). Most had a monthly earning of 5,001-10,000 baht (30.0%) or 10,001-20,000 baht (21.0%).

The psychographic characteristics of the sample are presented as follows. Most of the subjects considered themselves as middle class with a successful career (50.5%), civil servants (23.0%) or semi-skilled labourers (18.5%). Most of the respondents treasured work success (32.0%), personal privacy (19.5%), progress (19.0%), proficiency and convenience (17.0%). Most led their lives based on the rule of law and reasoning (35.5%), required a high level of success (29.0%) and were hard working and showed perseverance (11.5%). The personal image of consumers found among respondents were that they considered themselves to be successful in their endeavours (33.0%), making decisions by themselves (27.0%) and being hard working (17.0%). In terms of consumer personality, they bought things when they needed them (73.5%).

The behavioural characteristics of the sample are presented as follows. Most of the subjects reported that they sometimes bought Thai herbal products (77.0%). They bought cosmetic products such as lotions, soap or moisturizers (48.5%), medicine (28.0%) and health supplements (16.0%). In terms of how often the respondents bought herbal products, it was found that they did so regularly (37.0%), most
often buying products when going to product fairs (36.0%). Most reported that they were satisfied with the quality of Thai herbal products (58.0%) and they were proud of Thai herbal products (29.0%). The quantity of herbal products purchased when compared with friends’ purchase was at a low level (50.0%) and as much as friends purchased (35.0%). They were attracted by product trademarks at only a moderate level (45.5%) or a low level (22.0%). Most had some knowledge about the herbal products they purchased at a moderate level (65.0%). The level of product satisfaction was at a moderate level (47%) or else at a high level (41.5%).

Concerning market segments and market shares using the hierarchical cluster analysis technique, this was conducted and resulted in nine clusters of customers, as follows:

**Consumer group 1** consisted of female customers who were below the age of 19 up to 50 years of age. They were middle class with job success, operating personnel and civil servants. This group purchased Thai herbal products at an average level, specifically cosmetics, medicines and health supplements. This consumer group represented 73.8% of the Thai herbal products’ market in the southern part of Thailand.

**Consumer group 2** consisted of male customers who were 26-50 years old. They were skilled workers, operating personnel and civil servants. This group purchased Thai herbal products such as medicine, cosmetics and food at a low level. This consumer group represented 10.1% of the Thai herbal products market in the southern part of Thailand.

**Consumer group 3** consisted of single female customers who were aged 19-40. They were in the middle class with job success. This group frequently purchased Thai herbal products, specifically cosmetics, at a high level when compared with their friends. This
consumer group represented 5.1% of the Thai herbal products market in the southern part of Thailand.

**Consumer group 4** consisted of customers who were aged over 51. They were middle class with job success and were skilled workers. This group purchased Thai herbal medicines at a moderate level. This consumer group represented 4.0% of the Thai herbal products market in the southern part of Thailand.

**Consumer group 5** consisted of female customers who were aged 41-50. They were middle class with job success. This group frequently purchased Thai herbal products at a high level and they had some knowledge about herbal products. This consumer group represented 2.5% of the Thai herbal products market in the southern part of Thailand.

**Consumer group 6** consisted of male customers aged 41-50. They were middle class with job success. This group frequently purchased Thai herbal cosmetics and medicine at a high level. They were satisfied with the products and interested in the trademarks of the herbal products. This consumer group represented 2.5% of the Thai herbal products market in the southern part of Thailand.

**Consumer group 7** consisted of Muslim males aged 19-25 years. They were middle class with job success, administrative personnel and civil servants. This group had never before purchased Thai herbal products. This consumer group represented 1.0% of the Thai herbal products market in the southern part of Thailand.

**Consumer group 8** consisted of males, aged 31-40 years. They were middle class with job success, operating personnel and civil servants. This group had never used Thai herbal products but they bought herbal medicines as gifts for others. This consumer group represented 0.5% of the Thai herbal products market in the southern part of Thailand.
**Consumer group 9** consisted of male civil servants, aged 41-50 years. This group used Thai herbal cosmetics at a low level. This consumer group represented 0.5% of the Thai herbal products market in the southern part of Thailand.

### 6. Recommendations

Results from the market segmentation of Thai herbal products in the southern part of Thailand revealed that there were four market segments that should be targeted as leading market segments. The market for consumer group 1 was the biggest and the market value was at a moderate level, while the market value of consumer group 3 was at a good level, followed by consumer groups 5 and 6. Consumer group 1 could be a mass market, while consumer groups 3, 5 and 6 should be segment or niche markets. Businesses that have more advanced management and resources can handle all the four markets, while businesses or manufacturers with low management and resources, like OTOP, should select from groups of 3, 5 and 6. Interestingly, group 7 was found to be the only customer group that never used Thai herbal products, and group 8 included those who never used herbal cosmetics, medicine or health supplements which were the most famous products in the southern part of Thailand, although they bought herbal medicine as presents for others.

To obtain complete information in planning marketing strategies for Thai herbal products, further detailed studies into consumer behaviour in different market segments should be conducted, particularly in those market segments that were found to have the highest potential in marketing values. It was also recommended that there should be more studies into product placement for Thai herbal products.

### 7. Bibliography


