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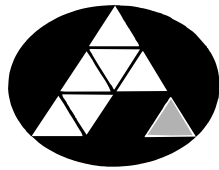
Degree Programme in Forestry

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MARKETING STRATEGY STUDY FOR CUSTOMIZED HUMIDORS IN EAST ONTARIO AREA

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Nimike
Marketing Strategy Study For Customized Humidors In East Ontario Area

Toimeksiantaja
From the Cherry Tree Ltd.

Strategialla on monta määritelmää, mutta yleensä se yhdistetään asemointiin ja kilpailuetujen luomiseen. Strategian päätavoitteena on löytää asema markkinoilla ja luoda ylivoimaista kilpailuetua, jota kilpailijoilla ei ole. Voidaankin sanoa, että strategia on keino jolla vastustaja voitetaan. Strategian sisältö voi vaihdella paljon eri organisaatioiden välillä. Tässä strategiassa on käsitelty segmentointi, markkina-analyysi, asemointi ja kilpailuedut.

Normaalisti liiketoiminta perustuu ideaan ja ideat syntyvät intuitiosta. Siksi tarvitaan tutkimusta antamaan luotettavaa tietoa, koska päätökset, jotka perustuvat vain intuitioon, ovat riskialttiita. Yrityksellä From the Cherry Tree Ltd. oli ajatus mahdollisista humidormarkkinoista Ottawan ja Montrealin alueella, ja yrittäjällä on tavoitteena työllistää itsensä työpajassa lähtemättä muualle töihin. Siksi yritys tarvitsee tuotteen ja strategian päästäkseen tavoitteeseensa. Tämä tutkimus esittää markkinointistrategian pöytähumidorille.

Tutkimus alkaa segmentoinnilla. Hyvän segmentoinnin jälkeen markkina-analyysi on helppo tehdä, koska markkinat ja segmentti on mitattavissa. Markkinoiden koko ja kilpailijat voidaan nähdä hyvästä markkina-analyysistä. Kun haastattelut antoivat tietoa kohderyhmän odotuksista tuotetta kohtaan, voidaan tehdä päätelmiä kilpailueduista. Kun kilpailijoiden tuotteet ja kohderyhmän odotukset ovat tiedossa, kokonaiskuva alkaa olla selvä. Koska kilpailijoiden tuotteet eivät täytä kaikkia kohderyhmän vaatimuksia, voidaan kilpailuetua luoda erilaistamalla tuotetta vastaamaan kysyntää.

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Strategy has many definitions but most often it is connected to positioning and creating competitive advantages. The main purpose of a strategy is to find a particular position in the market and create overwhelming competitive advantages that competitors do not have. In other words, the strategy aims to find a way to defeat competitors. The content of the strategy can fluctuate a lot between different organizations, but this strategy includes segmentation, market analysis, positioning and competitive advantages.

Before any business has started, there has been a vision or an idea. Normally, visions and ideas are founded on intuition. Therefore research is needed to give reliable information, because operations based on intuition are too risky. The entrepreneur had the idea of the possibility of a market for humidors in the area of Ottawa and Montreal, and his aim is to employ himself at the workshop without going to work elsewhere. Therefore, the entrepreneur needs a product and a strategy to reach his goal. This research presents the market strategy for the desktop humidor.

The research was started by doing segmentation. After a successful segmentation, the market analysis is easy to do because it means that the segment and the market are measurable. The size of the market and competitors can be seen through a good market analysis. When the interviews gave information on what kind of humidors the target group would be ready to buy, the competitive advantages were deduced. When the products of the competitors and the consumers' expectations are known, the whole picture starts to be clear. Because the competitors do not fulfill all expectations, a competitive advantage can be created by differentiating a product to meet the target group's demand better.

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APPENDICES

Appendix 1. Plan for the interview

1 Preface

During the summer 2010, I completed my internship, related to my forestry studies, in Ottawa, Ontario, Canada. I worked for a small enterprise called From the Cherry Tree Ltd, which manufactures custom woodwork. The entrepreneur had the idea of the possibility of a market for humidors in the area of Ottawa and Montreal. Therefore, my job was to assist the entrepreneur in the marketing development of the humidors. During this period of three months, while I was working for the company, I acquainted personally with the operational environment and did non-structured interviews in the local cigar lounges. This research links up my own experiences with statistics of the operational environment and results of non-structured interviews.

Because the manufacture of humidors has just begun, all collected information is precious for the client. However, the main target of this research was to determine the size of the market in the area of Ottawa and Montreal, and work out the customer behavior for what kind of humidors there might be a demand. This market research can be divided into two parts. First, a market analysis which goes through segment, size of the market and marketing strategy with positioning and competitive advantages. Second is the results of non-structured interviews, although results are also used to support theory in the first part. This research should help the entrepreneur to plan marketing and develop the product to meet the demand better.

2 From the Cherry Tree Ltd.

From the Cherry Tree Ltd. was established in Ottawa in 1995, and it focuses on high-end custom woodwork. The company is owned by Gaetan Delorme. He was born on 16th January 1959 in a small village called Alexandria, about one hundred kilometers from Ottawa. He began his studies of carpentry at the age of thirty and he worked for a subcontractor called Malcolm. After six years of work, he graduated in 1992. When Malcolm retired in 1995, Mr. Delorme established From the Cherry Tree Wooden Toys. Toy business did not work as well as the former employer had expected, and in 2000, he established From the Cherry Tree Ltd, which is operating today. He has a small workshop in his home, and his aim is to employ himself at the workshop without going to work elsewhere. Because of this goal, he needs products which could be manufactured at the workshop, and the humidor is one.

3 Humidor

Cigars are made in the tropics, where the relative humidity is a constant 70%, and they should be kept at that level all the time. Also, cigars have no added chemicals to keep them from drying out. They must be stored at the correct humidity level to preserve their moisture content, or they will dry out and crumble. In other words, the humidor's main purpose is to store and preserve the aging of the cigars for a number of years. Therefore, the humidor is an investment to protect valuable cigars. Furthermore, it can also be an attractive piece of furniture. (Allyn 1997)

Cigars should not absorb any unpleasant taste or smell. That is why the wood, which must be used for the interior, has to be Spanish cedar. Spanish cedar is

porous, thus it will first absorb and then release moisture evenly, while remaining dimensionally stable. The humidor will reach 70 % moisture content on the inside, while the humidity on the outside can be as low as 20 %. Spanish cedar should not be treated by any means. Otherwise, all other wood species can be used for the exterior. (Allyn 1997)

Humidity inside the humidor will not increase automatically. Therefore, a humidifier is needed. There are two different available humidification systems in the market, a sponge and an acrylic polymer humidifier. Both options will stabilize relative humidity at the level of 70 %. Nowadays, acrylic polymer is becoming more popular. From the Cherry Tree Ltd. uses acrylic polymer, too. In addition, there is, inside of the humidor, a hygrometer, which measures relative humidity.



Picture 1. Humidors (Picture: From the Cherry Tree Ltd.)

4 Scientific purposes and research problems

Before any business has started, there has been a vision or an idea. Normally, visions and ideas are founded on intuition, therefore research is needed to give reliable information. In other words, research results are helping to minimize risks attendant on a decision.

The entrepreneur had the idea of the possibility of a market for humidors in the area of Ottawa and Montreal, and his aim is to employ himself at the workshop without going to work elsewhere. Therefore, the entrepreneur needs a product and a strategy to reach his goal. This research presents the market strategy for a desktop humidor and helps the entrepreneur to reach his aim.

Strategy has many definitions, but most often it is connected to positioning and creating competitive advantages. The main purpose of a strategy is to find the particular position in the market and create overwhelming competitive advantages that competitors do not have. In other words, strategy aims to find a way to defeat the competitors. (Kehusmaa 2010, 13.)

The content of the strategy can fluctuate a lot between different organizations, but here strategy includes segmentation, market analysis, positioning, competitive advantages and potential competitive strategies. All information is collected from market and strategy related books, on the internet and by qualitative research.

4.1 Purpose of segmentation

The most important purpose of segmentation is to understand the consumer needs in a more precise way than the competitors. In this way, a company can differentiate itself from its competitors by the products and the services it offers. (Drummond, Ensor, Ashford 2008, 49.)

When the segmentation is done well, the size of the market is easy to measure, and it can be estimated if the segment is large and profitable enough to serve.

4.2 Purpose of market analysis

Market analysis is quite often confused with market research. In practice, market analysis defines, among other things, the size of a market when the market research tries to define all the elements helping the marketing implementation. Therefore, market analysis is one of many parts of a market research. Another part of it would be, for example, the research of a company's competitive advantages as the centre stage of a market research. (Rope 2005, 421.)

Market analysis gives an idea of the market area and competitors. It collects all necessary information which assists in positioning. In addition, it helps to see the current situation in the operational environment. (Kehusmaa 2010, 69—71.)

4.3 Competitive advantages

The factors of competitive advantages, success and differentiation are related to each other. All of them mean that the company has been able to create something different that the other competitors do not have. As a result, the company succeeds better than the competitors do. The competitive advantages are not born accidentally, and they do not get stronger by themselves, therefore the strategy and the plan of action are needed. (Kehusmaa 2010, 81—83.)

The core competence is part of a company's strategic know-how. The competitive advantages and the whole strategy is founded on the core competence. In the Niche strategy chapter, From the Cherry Tree's potential core competences are listed and can be used to create the competitive strategies. However, this research concentrates on the core strategy, which is the hub of strategies. It stands for segmentation, targeting, positioning and creating competitive advantages. (Kehusmaa 2010, 83—85.)

4.4 Purpose of qualitative research

Qualitative research helps to understand the target group's behavior and decisions. The goal of the interviews was to get useful information on the characteristics of the product and to know what its expectations were. What kind of hu-

midors the target group is willing to buy and how much everyone is ready to spend for the humidor they want, creating in that way a separation from competitors. In other words, how to gain more competitive advantages against the competitors?

5 Structure of marketing process

The word process means to divide marketing into phases. Therefore, the structure of marketing process defines the order of marketing implementation. The decisions, which are made beforehand, are the foundations for the next implementation. (Figure 1)

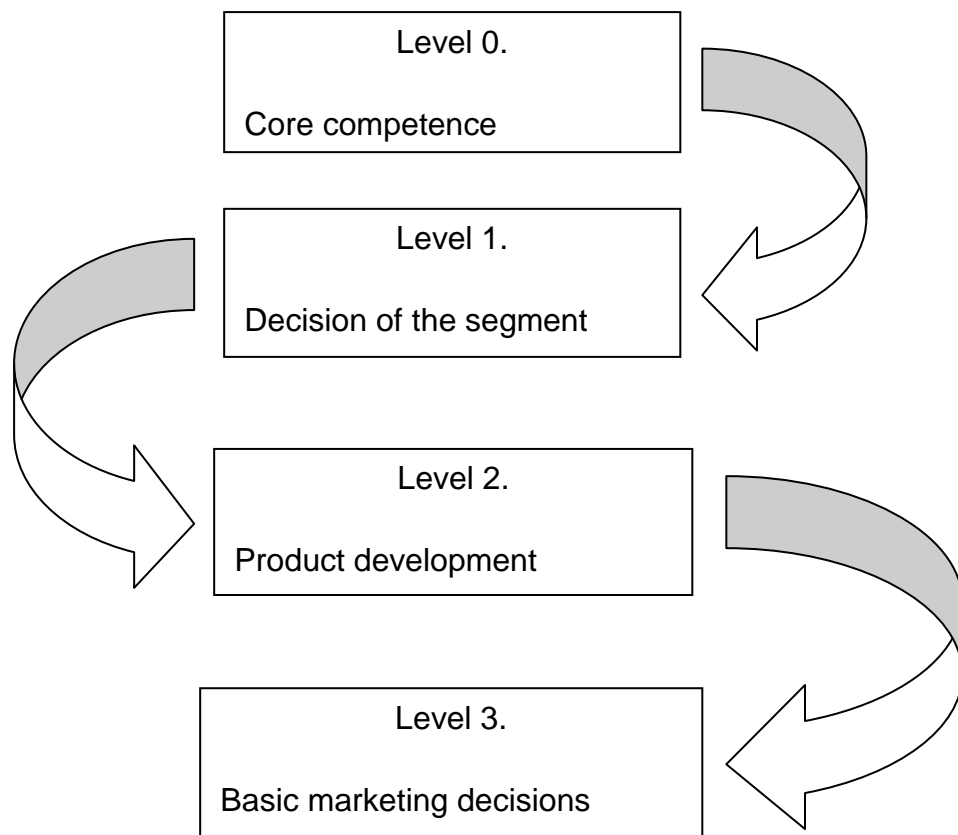


Figure 1. Structure of marketing process

5.1 Level zero

Level zero is not exactly the beginning of the process, but it is the foundation where everything is built up. Furthermore, it is important to notice that the core product can be restaurant, car, humidor or anything. The kind of product that will be made depends on Level one, which is segmentation. Basically, the core product is the core competence that the company or the entrepreneur has. (Rope 2005, 46.)

5.2 Level one

Segmentation is the foundation of the marketing processes. It is not only the decision of the target group. It is also the definition of expectations, needs and characteristics of a target customer. This division is decisive for marketing implementation. (Rope 2005, 46.)

Information of target customers' behavior is normally collected by different kind of researches. For this strategy, it was done by qualitative research.

5.3 Level two

The development of a product is based on expectations and needs of a target customer. The idea is to develop a more beautiful and more desirable product than the competitors' one. This level can be seen as a refinement of the competitive advantages. (Rope 2005, 47.)

Expectations and needs of a target customer are known because of qualitative research. As a result, the product can be developed to meet the demand better than competitors' one.

5.4 Level three

Level three includes price, promotion and marketing channel decisions, which are strongly connected to each other. However, it is most important to understand that there is no reason to manufacture products that nobody wants to buy. Therefore, production is built up around the marketing decisions. (Rope 2005, 47.)

This is the order of marketing operations. Before the last level is passed successfully, a company cannot move to the next level because the decisions which are made before are the foundation of the next level.

6 Segmentation, targeting and positioning

Segmentation, targeting and positioning is together the core strategy. Business is mostly successful when concentrating on a group of customers who they can serve better than anyone else rather than trying to compete in an entire market. Therefore, a company must identify the subdivisions of the market that it can

serve the best. This operation is called segmentation. It means dividing a market into groups of buyers with different needs, characteristics and behaviors. (Figure 2.)

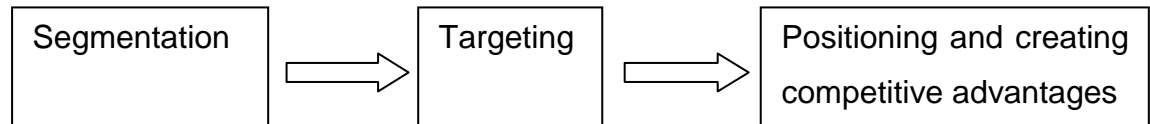


Figure 2. Core strategy (Kotler, Armstrong, Saunders & Wong 2001, 313—315.)

There are different levels of market segmentation. Mass marketing is presented when a company does not practice any segmentation. The practice of a complete segmentation would be micromarketing. Finally, between those two extremes, can be found other levels of market segmentation. With custom humi-dors, niche marketing is suitable for From the Cherry Tree, because it targets a very narrow group, thus mass marketing would be a waste of resources.

Niche is a narrowly defined group with a unique set of characteristics that may seek a special product for its needs. Usually, it is identified by dividing a segment into sub segments. Therefore, niche marketing focuses on subgroups of segments. (Kotler & etc. 2001, 317.)

One extreme of marketing is micromarketing, where companies tailor their marketing programs to the needs and wants of a narrowly defined segment. Micro-marketing includes local and individual marketing. In local marketing, the company is tailoring several brands and promotions according to the needs and wants of the local consumer group. In individual marketing, the company tailors the products and marketing programs to the individual consumers. (Kotler & etc. 2001, 318—320.)

After the segmentation, all market implementation must be targeted towards this group of consumers. The way of marketing will depend on how large the segment is. If the segment is very large, it will be closer to mass marketing, when micro-marketing will be defined by a very narrow segment. In the end, all marketing programs need to be targeted to the chosen group of consumers before any competitive advantages can be seen, since the company has to know the consumer's needs. If this is taken into consideration, this company will serve its customers better than any others. (Figure 2.)

Core strategy has two parts. The first part is the identification of a group of customers for whom the company has a differential advantage and the second is the positioning of its offerings in the customer's mind. Positioning starts with differentiating the company's marketing offer in order to present the consumers a product that has more value than what the competitors have. A company will differentiate itself from its competitors by the products, the services, the personnel or the image. In other words, the idea of differentiation is to develop a product which meets the consumer's demand better than the competitor's product does. This will create a competitive advantage. (Figure 2. Kotler & etc. 2001, 355—360.)

7 Geographic segmentation

There is no single way to segment a market. Normally, different segmentation variables and combinations are used to find the best way to view the market structure. The major segmentation variables are geographic, demographic, psychographic and behavioral. (Kotler & etc. 2001, 321.)

The geographic segmentation divides the markets into different geographical units, such as nations, states, regions, counties or cities. (Kotler & etc. 2001, 321.)

7.1 Ottawa-Gatineau

The primary market area is Ottawa-Gatineau, because the company has been located and operated there since 1995. Therefore, it is the best area to start with a new product. As a result of a long experience in its home town, the company has already a good reputation and network there. In addition, it is the capital of Canada, thus, there are a lot of government buildings and state officials. Furthermore, it is a very wealthy area.

- The fourth largest Census Metropolitan Area (CMA) in Canada after Toronto, Montreal and Vancouver.(City of Ottawa)

- Capital of Canada (Ottawa)
- Economically the wealthiest metropolitan area in Canada in 2006 (City of Ottawa)
- Population 1,239,100 (Statistics Canada 2010)

7.2 Montreal

Montreal is a secondary market area because of its location. It is just two hundred kilometers away from Ottawa. Therefore, it is possible to serve the customers living in Montreal. Moreover, the entrepreneur is francophone, thus this can be considered as an advantage when operating in the Montreal area, because this city is in the province of Quebec, where the first official language is French.

- Population of 3,859,300 inhabitants (Statistics Canada 2010)
- The tenth wealthiest metropolitan area in Canada in 2006 (City of Ottawa)
- The second biggest metropolitan area (Statistics Canada 2010)

8 Psychographic and behavioral segmentation

The psychographic segmentation divides the consumers into different groups based on their social class, lifestyle or personality characteristics when behavioral segmentation divides buyers into groups based on their knowledge, attitude, uses or responses to a product. (Kotler & etc. 2001, 327—329.)

A company needs to define the characteristics of the target group. It is the base for marketing implementation. The goal is to find the target group that is the most appropriate for the company's resources in order to give economically the

best results. The company aims to adapt its supply and marketing to meet the target group's expectations and hopes. (Rope 2005, 153—154.)

The idea of character segmentation is the description of the characteristics that will affect the buying decision. A successful description of the target customer will give a better base for marketing implementation. (Rope 2005, 166.)

There are many ways to segment a market but not all of them are effective. Useful market segmentation has several requirements. It has to be measurable by its size, buying power and profile of the segment. Other requirements are accessibility, substantiality and action ability. The questions such as can the market segment be effectively reached and is it profitable enough to serve must be answered. (Kotler & etc. 2001, 340.)

8.1 Resources of the company

From the Cherry Tree is a small company run by one man, thus it is not able to do mass production or price competition with Chinese companies. All products are pure handcraft from the beginning to the end. Therefore, the products are as higher quality and made from the best raw materials. In addition, it takes several days to manufacture a humidor. Usually, the entrepreneur makes few humidors at the same time to minimize the labor, but the product will still be quite expensive for the average men. In other words, it is wiser to manufacture high-end luxury custom humidors, and then there is no need to sell so many humidors in a limited time frame, and the entrepreneur is able to concentrate on each humidor and customer individually. That is how the entrepreneur will wisely maximize his profits.

8.2 Profile of target customer

Cigars are often represented as the stereotypical accessory of wealthy men. They are associated with financial stability, power and success. Cigar consumption can be considered as a subculture of sophisticated and refined tobacco and alcohol connoisseurs.

From the Cherry Tree's humidors are intended for this aristocratic class that most often includes well-paid young middle-aged men, and possibly older, as well. The target customer has to be a devoted cigar smoker and smoke a few cigars per month in order to intend to store cigars in a humidor. There is also the possibility that the customer does not smoke much but wants to store cigars in a safe place for special occasions. Because the custom humidor is valuable, customers have to see it as an investment to protect valuable cigars. All in all, as it was seen in the survey, all valuable information came from higher social classes, wealthy state officials or businessmen who were interviewed.

9 Market analysis

Knowledge of overall market is a cornerstone of the market analysis. The market position of a company's product can be seen through an analysis of the market area. Normally, the information from an overall market is divulged by research companies and statistics of the country. When the measuring, collecting and analyzing methods are similar, the data is comparable from one market area to another, and the results can be combined and compared throughout the years. (Lotti 2001, 49.)

Furthermore, public administrations compile a lot of information. The statistics of the country has a lot of basic information from different business sectors and consumption. In addition, there are also other databases, which are useful for the purpose of a market analysis. (Lotti 2001, 50.)

9.1 Cigar smoking in Canada

The consumption of cigars in Canada, the purchasing power and the age distribution are the elements used to calculate the size of the market targeted.

According to the 2008 Canadian report on tobacco, 2.6% of the Canadian population reported to have smoked cigars in the past 30 days. In addition, the consumption of cigars seems to have increased in the last ten years. (Figure 3.)

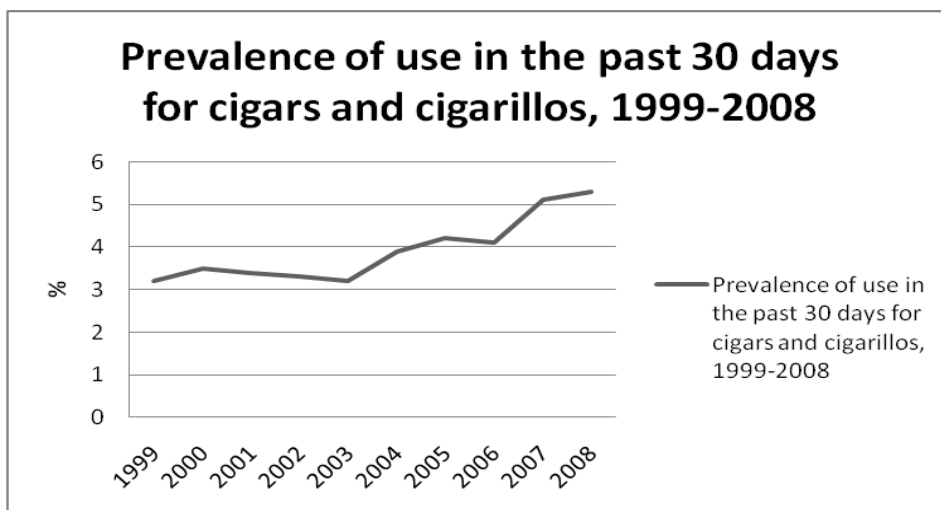


Figure 3. Prevalence of use in the past 30 days for cigars and cigarillos (Propel Centre for Population Health Impact, 2009)

The consumption of cigars was significantly higher among males than females in 2008. 4.2% of males had smoked cigars in the last 30 days and less than a percent of females had done so. (Propel Centre for Population Health Impact, 2009)

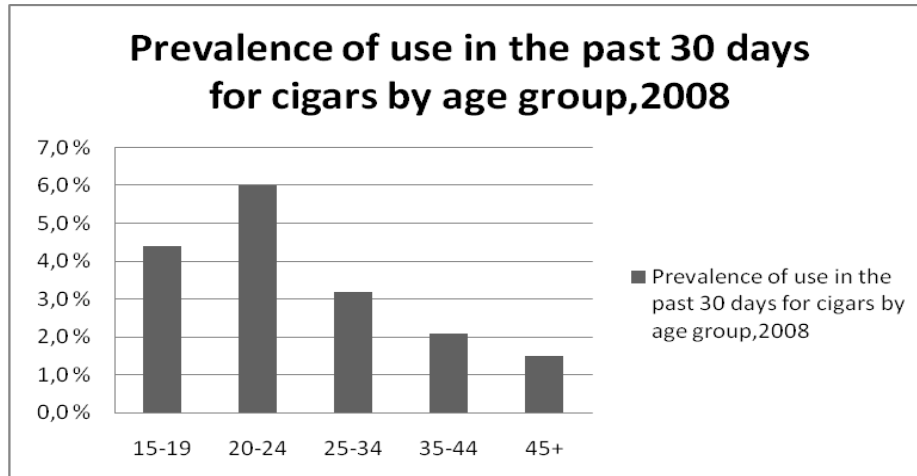


Figure 4. Prevalence of use in the past 30 days for cigars by age group, 2008 (Propel Centre for Population Health Impact, 2009)

It seems that the consumption of cigars decreases with age. (Propel Centre for Population Health Impact, 2009) The age of the target group of the humidors would be older than twenty-five. Therefore, 2% of the population would be the right figure when estimating the market size. It is an average of the three last age groups. (Figure 4.)

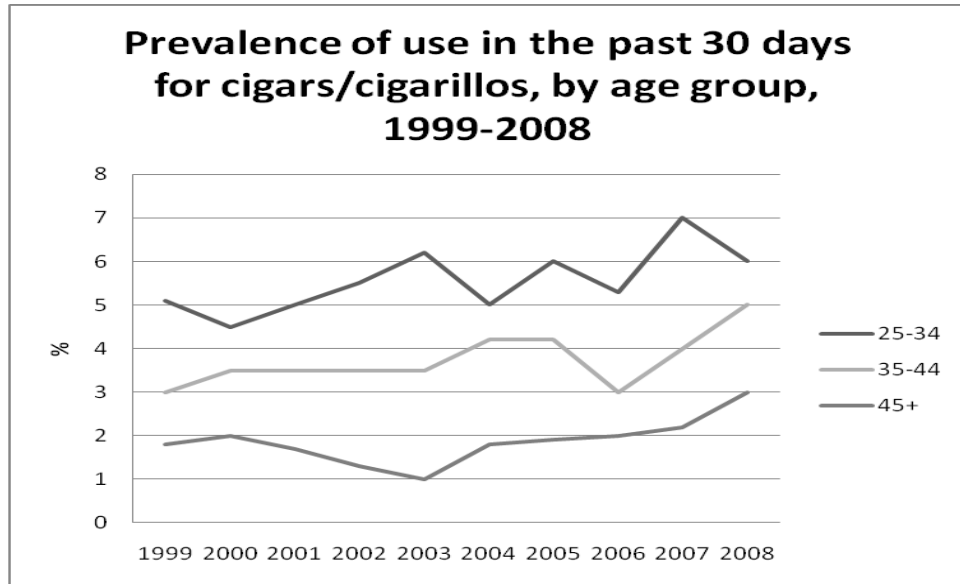


Figure 5. Prevalence of use in the past 30 days for cigars/cigarillos, by age group, 1999-2008. (Propel Centre for Population Health Impact, 2009)

In the youngest age group, the use of cigars and cigarillos has decreased, but in the two older age groups, where buying power is higher, it has increased in the last two years. (Figure 5.)

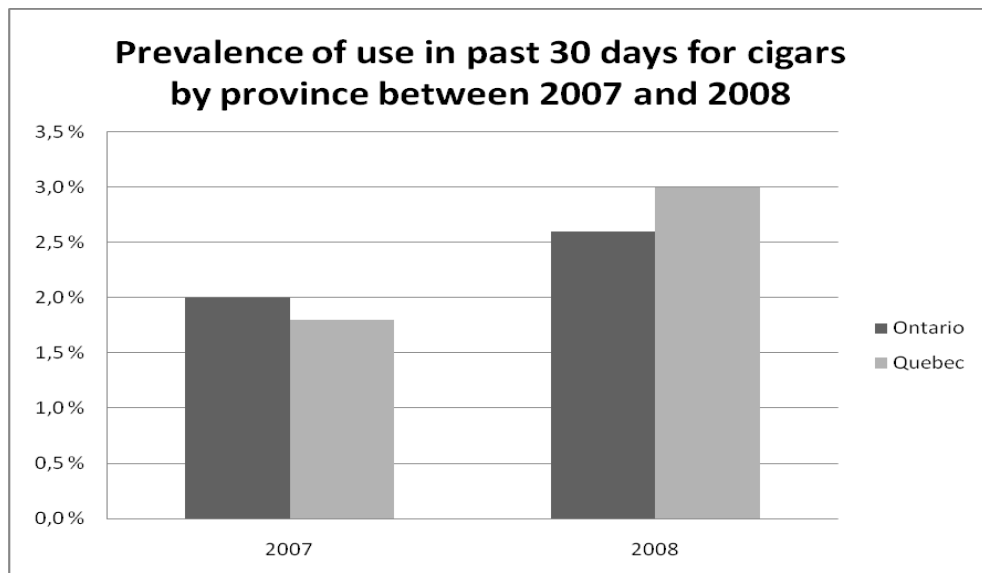


Figure 6. Prevalence of use in past 30 days for cigars, by province, between 2007 and 2008. (Propel Centre for Population Health Impact, 2009)

The use of cigars has increased between the years 2007 and 2008 in the target market. (Figure 6.)

9.2 Income distribution

Income distribution is the tool used to measure the buying power. The price of the custom humidor can increase so high that only the wealthiest quintile can afford it. Furthermore, cigar smoking is normally a hobby of the higher social class.

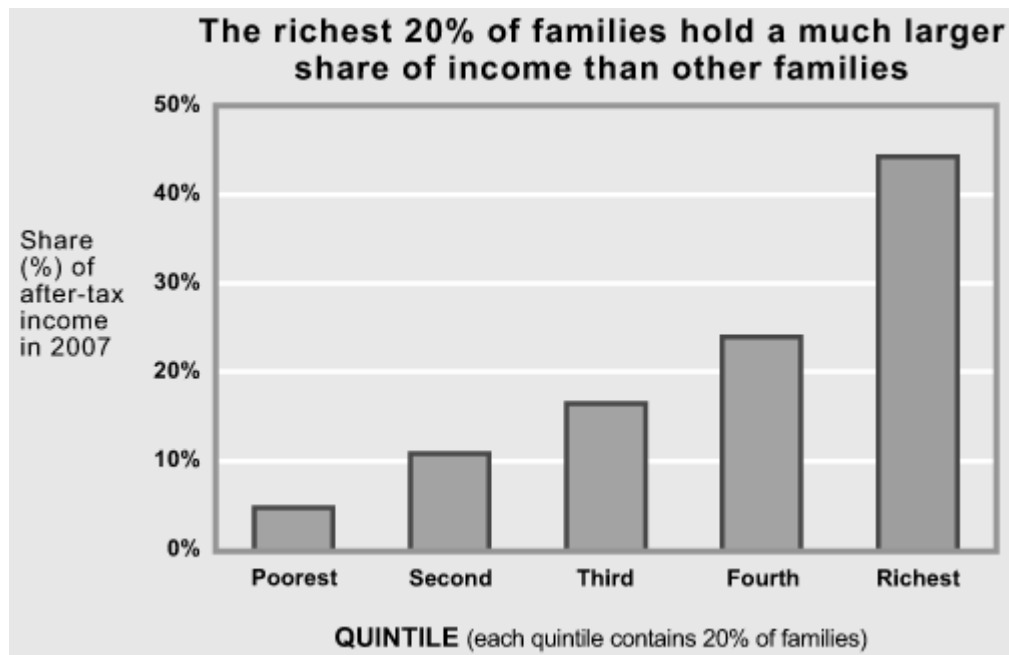


Figure 7. Population of Canada divided into five income quintiles, 2007 (Canada's National Council of Welfare, 2007)

In this graph, families are ranked from the poorest to the richest and are divided into five equal groups called quintiles. Each quintile contains 20% of the families. As it can be seen, the richest 20% earn almost half of all income. (Figure 7.)

This twenty percent of the people is the target group, because it has a lot of purchasing power. According to the poverty profile of 2007, the gap between rich and poor people has increased in the last few years. There is probably a connection between cigar consumption and the richest quintile getting wealthier. The consumption of cigars has also increased too in the last few years. Cigars represent power and wealth, which has increased in the richest twenty percent.

9.3 Age distribution

It is known that most of the cigar smokers are young middle-aged men. Therefore, age distribution is used when measuring a segment.

Table 1. Age distribution by province.

	Population	0 to 14 years	15 to 64 years	65 years and over
Ontario	12.989.996	17.2%	69.4%	13.5%
Quebec	7.750.504	15.9%	69.5%	14.6%

(Statistics Canada, 2008)

9.4 Market size

The population of Gatineau and Ottawa was 1.239.100 and that of Montreal was 3,859,300 inhabitants in 2010. (Statistics Canada, 2010)

To estimate the market size, firstly, the population of Gatineau, Ottawa and Montreal is added together. Then, the age distribution is used to get how many people are between 15 and 64 years. This calculation will give too high a number, because the target segment is 35 years and older. After that, the income distribution is used to get a figure of the richest 20%, because the target customer is from the wealthiest quintile. Then, what is left is only the consumption of the cigars in the past 30 days in 2008, which was 2%. This figure is used, because the target customer needs to smoke at least one cigar per month, although he smoke supposedly more than one cigar per month to store cigars in the humidor, thus this figure will be slightly too high. (Table 2.)

Table 2. Estimation of the size of the segment.

Population of Ottawa, Gatineau and Montreal	5.098.400 inhabitants
15 to 64 years (69%)	3.517.896 inhabitants
The richest 20%	703.579 inhabitants
The consumption of cigars in the past 30 days in 2008. (2%)	14.071 cigar smokers
Estimated size of segment	14.071

This figure is just a rough estimation of the size of the segment, but it gives an idea of how many wealthy cigar smokers there are in the market area. (Table 2.)

One thing needs to be understood. Customers and segments are two different things. A segment is a group of people that a company wants to reach and please, if they have or have not bought from the company. However, a customer that has bought from the company is not necessarily part of the segment. (Rope 2005, 155.)

10 Competitors

When a new business starts, a competitor analysis is part of an action plan. The company's strengths, weaknesses, opportunities and threats are estimated against competitors. (Lotti 2001, 61.)

The company must provide greater customer value and satisfaction than its competitors. It must adapt the needs of the target customer and gain strategic advantage by positioning their offerings strongly against those of the competitors. (Kotler & etc. 2001, 121.)

There are no other carpenters manufacturing custom humidors in the area of Ottawa and Montreal. In Ottawa, there is only one store specializing in cigars and cigar accessories, and in Montreal, there are a couple. All of them sell imported humidors. Those humidors are mostly intended for fifty cigars. They are cheaper and as lower quality. Therefore, the target customer would not buy those humidors, because he would consider the humidor as an investment for valuable cigars. The most expensive cigars can cost hundreds of dollars, and the target customer would not store those cigars in a humidor that might not necessarily work. Cigars that these stores sell range from 5 to 100 dollars each and even more, when these imported humidors cost from 60 dollars to 200 dollars.

The major competitor would be Canadian Vanderburgh. Their market area is the whole world, because of their internet store, when From the Cherry Tree is only concentrating on the Ottawa and Montreal area. They manufacture high-end custom humidors as From the Cherry Tree does, but their humidor size starts at 100 cigars. That is why, the price of their humidors starts from 1000 dollars. People who would buy humidors of this kind either smoke more than one or two cigars per month, or are collecting cigars. In other words, these people have to be wealthy and heavy smokers. Thus, Vanderburgh's segment is narrower than From the Cherry Tree's but their market area is larger.

Otherwise, there are no other competitors in Canada. The nearest custom humidor manufacturers are found in the United States of America.

11 Positioning and Competitive advantages

Between the Chinese and Vanderburgh humidors, there is a small niche. The humidors manufactured in mass production are normally made from lower quality materials and overall, are low quality products and not as reliable as From the Cherry Tree's humidors. In addition, they look mediocre, thus they cannot be seen as a piece of furniture. Then, there are Vanderburgh's desktop humidors, which are big, made for one hundred cigars, and are luxurious. Therefore, their

prices start from 1000 dollars. Between these two, there is a gap. There are no custom humidors for fifty cigars or fewer between the price range of 500 and 1000 dollars. This does not mean that From the Cherry Tree's humidors would be ranked in the middle, in other words, the mainstream. They still would be high quality and pure handcraft. A smaller humidor would be appropriate for people who do not smoke much but still want to protect valuable cigars. Lastly, a smaller humidor looks more delicate and is less expensive. (Figure 10.)

This figure gives an idea of what kind of niche there is between Vanderburgh and Chinese humidors. Now, there are only two options for the consumers: a big custom humidor or a small low quality humidor. (Figure 10.)

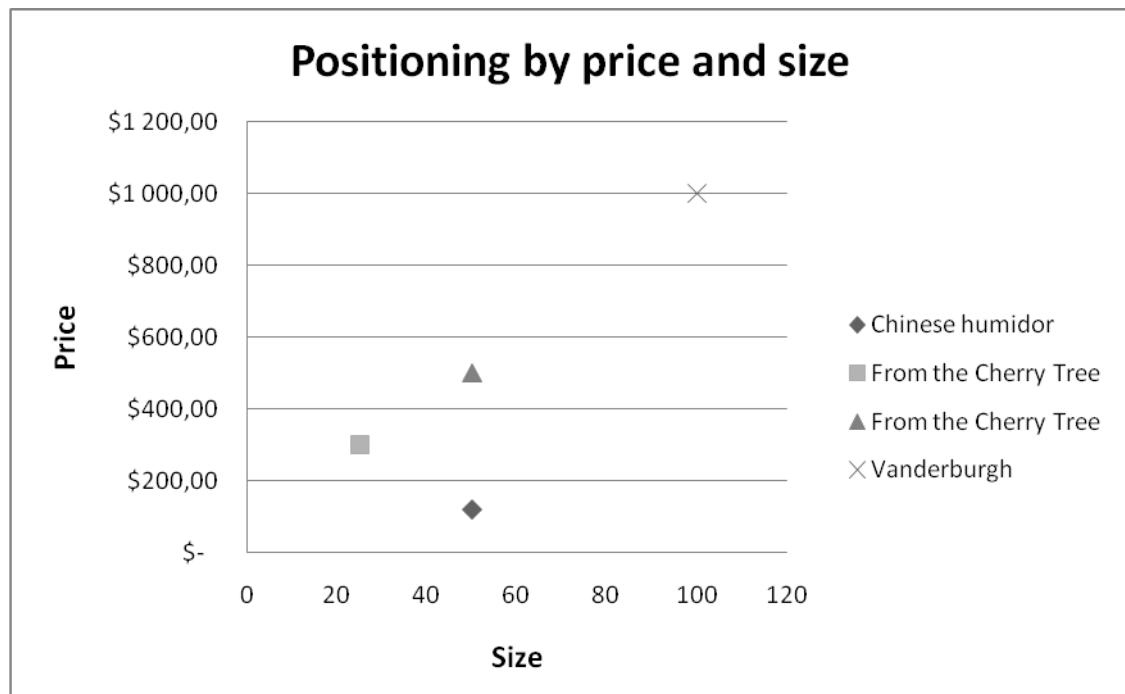


Figure 10. From the Cherry Tree's position in market by price and size

From the Cherry Tree's difficulty will be to do the right ratio between the resources and the price of humidor. What would be the best price to maximize the profit? There is no point of doing mass production, and on the other hand, the higher the price is, the smaller the segment will be.

11.1 Product

There are three different levels of a product: the core product, actual product and augmented product. The most basic level of product is the core product, which answers the question: What is the customer really buying? The actual product describes the characteristics of a product such as the quality level, features, styling, brand name and packaging. The last one, the augmented level, offers additional consumer services and benefits. (Kotler & etc. 2001, 460.)

Firstly, when buying the humidor, the consumer is buying a safe place to store valuable cigars. Secondly, the buyer wants a high quality product, which looks nice. Lastly, the consumer wants good service.

11.2 Product differentiation

In differentiation, a company concentrates on creating a highly differentiated product that comes across as a class leader in the industry. Most customers would prefer to own this brand, if its price is not too high. (Kotler & etc. 2001, 428.)

When Vanderburgh manufactures big desktop humidors, From the Cherry Tree should first concentrate on manufacturing smaller desktop humidors and traveler models. All interviewees were more ready to buy a humidor for fifty cigars and less than a big humidor for a hundred cigars. Furthermore, the manufacture of more furniture looking humidors might be important to consider, because there is no competition and with this kind of product, the entrepreneur could gain more profit than by desktop humidors.

11.3 Service differentiation

Another competitive advantage would be to develop customer services. Because of the central location in the market area, service differentiation would be a competitive advantage for From the Cherry Tree. Now, service is not one of the core competences of the company but it could be, because most of the clientele are regular customers. Therefore, it can be said that the quality of the

work pleases the customers and furthermore, they like the entrepreneur as a person since they come back. For instance, the customer could play a part when designing a humidior. As a result, the humidior would fit like a glove in the customer's furnished home. In other words, good service could help to manufacture humidiors toward a showpiece of the house.

The idea of competitive success often lies in adding more value-adding services and improving their quality. The main service differentiation is ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair, and few others. (Kotler 1997, 289.)

12 Niche strategy

Normally, small firms avoid competing with the larger ones by targeting either smaller markets or narrower segments. The main point is that those smaller firms can be highly profitable through smart niching. (Kotler 1997, 395.)

Niching is profitable because the market nicher, the person who is doing niche marketing, knows the target customer group so well that the company meets its needs better than any other companies, which would casually sell to this target group. Therefore, a nicher can charge a substantial mark-up over cost, because niche products meet the needs of the target segment better. While the mass marketer achieves high volume, the niche marketer achieves high margins. (Kotler, Armstrong & etc. 2001, 442.)

The key idea in nichemanship is specialization (Kotler 1997, 397). These following roles can be considered as From the Cherry Tree's specialization.

- *Geographic specialist (Kotler 1997, 397)*: From the Cherry Tree operates only in Ottawa and Montreal. Therefore, it can understand the local customer's needs better, and it can build better customer relationship with clients. In addition, delivery, installation and customer's assistance are easier to realize when operating among the clients.

- *Job-shop specialist (Kotler 1997, 398)*: From the Cherry Tree manufactures custom woodwork for individual customers.
- *Quality specialist (Kotler 1997, 398)*: All products manufactured by From the Cherry Tree are as high quality and made from the best raw materials.
- *Service specialist (Kotler 1997, 398)*: Because of the company's location, it could serve customers better than the companies located somewhere else.

These listed specializations can be considered as the core competences of the company. However, the job-shop specialist is the main core competence, but these other specializations should be also developed. After the core strategy, concentration should be turned towards the competitive strategies because it will help developing greater competitive advantages and will give added value to the customer. This way, From the Cherry Tree can charge a substantial mark-up over cost.

13 Qualitative research

For this strategy, information of target customers' needs and behavior is collected by qualitative research. Non-structured interviews helped to develop the product to meet the local customer's demand better. Because of qualitative research, From the Cherry Tree's humidors can satisfy customers' mind better than competitors.

Qualitative research helps to understand the target group's behavior and decisions. Usually it answers the questions how and why. The goal of qualitative research is not statistical; it is more to find solutions to the problems. Therefore, a narrow sample can be sufficient to resolve the problems reliably if the sample is chosen through the right criteria. (Rope 2005, 423.)

The normal ways of collecting information are the focused and non-structured interviews as well as group conversations. In practice, the sample size of a qualitative research is most often open. Therefore, the research can continue as long as it brings new information. When the answers start to repeat themselves, there is no point to continue the research. (Rope 2005, 423.)

13.1 Non-structured interview and group interview

Open questions are used in non-structured interviews, thus it looks like a conversation in which an answer leads to the next question. The goal is to get the interviewee to reconstruct their own experiences about the topic. (Hirsjärvi, Hurme 2000, 45—46.)

Interviewees are not chosen randomly. They are specialists of the topic, which normally means a few whole-hearted interviews. (Hirsjärvi, Hurme 2000, 46.)

14 Non-structured interviews

The goal of the interviews was to get useful information on the characteristics of the product and to know what the expectations for the product were, i.e. what kind of humidors the target group is willing to buy and how much they are ready to spend for the humidor they want, creating that way a separation with the competitors. In other words, how to gain more competitive advantages against the competitors. Furthermore, the goal was to get information on how much high domestic content affects the buying decision. All interviews were done in Ottawa. All interviews covered these topics:

1. Tropical hardwood vs. domestic hardwood?
2. Foreign mass production vs. domestic handcraft?
3. Size?
4. How much do they smoke?

5. Quality?
6. Price?
7. Hobbies and cigar smoking?
8. Future of cigar smoking?

14.1 Criteria for interviewees

Several hours of material were collected from the twelve different interviews, but only some of them were used and analyzed because not all interviewees fulfilled the criteria. Most of the interviewees were young people who did not smoke enough to buy a humidor, and apparently, they were not wealthy enough. These young people were only in the cigar lounge to celebrate some special occasion. However, two non-structured group interviews were done with specialists, and used for this research. In the first interview, there were two middle-aged men, and in the second interview, four middle-aged men. These seven men fulfill the criteria perfectly, because they were middle-aged, wealthy and they smoked enough to have a humidor, which some of them already owned, and therefore, they shared a lot of good and valuable information. In other words, they were state officials or businesspeople, thus they fit into the segment perfectly. They were part of the target group.

It was not necessary to get more interviews, because these seven men's individual opinions were not different from each other. Secondly, it represents the size of the segment from all interviews. This segment is wealthy, and therefore, it is highly educated and sophisticated. In other words, they appreciate the same things and they mingle with other wealthy people. They do not share the same interests as people who cannot afford the custom humidor.

14.2 Cigar lounge Bachus, Hilton hotel Gatineau 19.8.2010

In this interview, there were two men, both of them in their forties. They were dressed up, and I understood that they both had a family. They were businesspeople and they told me that this is why they travelled a lot. One of them told

me he visits Montreal a lot and smokes there, as well. The whole interview lasted thirteen minutes.

14.3 Cigar lounge Bachus, Hilton hotel Gatineau 2.9.2010

Four men were interviewed in Bachus. All of them were in their forties and had a family. They were also dressed up, and one of them was inebriated. They did not tell me what they were doing for a living, but they obviously earned well. This interview lasted around twenty minutes.

15 Results

15.1 Tropical hard wood vs. domestic hardwood?

All interviewees knew that Spanish cedar must be used for the interior, because of the high level of humidity. Otherwise, they did not mind about the tree species used, as long it looked good. In addition, one opinion came up, the lid should be made from tropical hardwood, because it is heavier and therefore, it would seal the humidior better.

15.2 Foreign mass production vs. domestic handcraft?

Everybody would prefer to support the local manufacturer, if the price is reasonable. Furthermore, many of them have had some bad experiences in humidors, which have not worked as they should.

“It is about markets. It is about how much I would spend. Personally, I would encourage a local, if it is competitive with price and good quality. It is the same product so it has to work really well.” (Cigar lounge Bachus 19.8.2010).

15.3 Size?

As for the size, all, except one, owned a humidor made for fifty cigars. One owned three humidors, one of which was the size of a hundred. Most of the men thought that a humidor for one hundred cigars was too big for them.

"I wouldn't buy a humidor of one hundred cigars. I have everything I need, I don't need a bigger humidor. I will stick to fifty cigars unless I start to smoke more, which is very unlikely." (Cigar lounge Bachus 19.8.2010).

15.4 How much do they smoke?

All of them smoked more than one or two cigars per month, but there were differences between them.

"It depends the time of the year and the size of the cigar as well. I smoke five to six cigars per week in summer and in winter, about three cigars per week, because I don't have so much time and I have to travel here, because I don't smoke at home" (Cigar lounge Bachus 19.8.2010).

"We used to smoke more, when we didn't have kids. But now when we have kids, maybe once or twice a month" (Cigar lounge Bachus 2.9.2010).

"In good old days I smoked two or three cigars per week. Nowadays it is more like one or two per month. Maybe later I will start to smoke more when the kids grow up and I have more time." (Cigar lounge Bachus 2.9.2010).

15.5 Quality?

Quality meant the same for everybody. It is the synonym of the quality of the seal. In addition finishing came up.

"The only thing which matters to me is the quality that it keeps humidity inside" (Cigar lounge Bachus 19.8.2010).

"Seal is important; how long humidity stays inside" (Cigar lounge Bachus 19.8.2010).

“Good look is always fun. I have it in my room right now, it is in my bedroom and my wife doesn’t mind so it looks okay. For my wife it’s a big thing, ha ha ha but I just want to protect my cigars.” (Cigar lounge Bachus 19.8.2010).

“Heavy lacquering doesn’t look rich, it looks cheap.” (Cigar lounge Bachus 2.9.2010).

15.6 Price?

Price was a difficult question. Everybody understood that if the humidor is Canadian handcraft, it would be more expensive than what can be bought from the local store.

“I think we are average cigar smokers. We are financially okay but we are not super rich. I think I would go for 500 dollars max” (Cigar lounge Bachus 2.9.2010).

“If I would pay more than a thousand dollars, it should be a show piece of the house, more like a cabin than a desktop humidor” (Cigar lounge Bachus 2.9.2010).

15.7 Hobbies and cigar smoking?

Obviously, many cigar smokers play golf. Golf can be considered as a higher social class’ hobby.

“Many people like to have a cigar on the golf course. But for me it is more hobbies to get exercise. It’s not the same as the desire for smoking, but because of age and health... who knows maybe I don’t smoke after two years.” (Cigar lounge Bachus 19.8.2010).

15.8 Future of cigar smoking?

All of them agreed that there are not many public places left where they can smoke. However, all of them were happy about the law banishing smoking in

public places. Furthermore, they added that cigars and cigarettes are a totally different thing.

“The legislation is getting stricter. This place only exists because of grandpa. If you want to open a cigar lounge, you can’t. Legislation says it is not allowed. Many years ago in Quebec, people were not allowed to drink alcohol, but what happened is; people decided to do their own alcohol in their backyard. And they had big parties anyway. Rules are one thing and rights are another thing, your freedom to smoke. Only thing what you can’t do is to make somebody to smoke for you, basically play by ear. Even when they try to hunt down cigar smokers, our right to smoke cigars, we will find our way to smoke. It might be more expensive than at the beginning and in the long run.....” (Cigar lounge bachus 19.8.2010).

“Yeah we are lucky to have this place. The thing is if the situation is getting so difficult that I can’t smoke anymore inside, I will build something in my house, my own cigar lounge. For me, cigars are good time, it is not like cigarettes. I am happy with the rules around cigarettes, perfectly happy.” (Cigar lounge bachus 19.8.2010).

“Truly smokers won’t stop but there are social smokers, who don’t smoke alone, they smoke with other people, like I smoke with other people. I like to have company when I am smoking.” (Cigar lounge bachus 19.8.2010).

15.9 Summary

The issue on how much they smoke and their discussions about the humidors they have had was to make sure that the questions were made for the right people and therefore, the answers were reliable. When people smoke few cigars per month, they often have or have had a humidor. Therefore, they had experience in humidors and knew what kind of humidor is good. If a consumer has had a humidor, most often he has an idea of what is wrong with the one he owns now and what things affect the humidor’s buying decision. For instance, nobody would buy a glass top humidor again.

To sum up, it looks like people would support the local manufacturer, if the price is competitive and the product is what they are looking for. They expect a high quality product, which means, in this case, that the humidor has to work properly. However, for them, the materials used were not so important, although everybody knew that the interior had to be made from Spanish cedar. Furthermore, somebody reported that the lid should be made from tropical hardwood because it is heavier and that way, it seals the humidor better, and thus humidity stays inside and does not run out so quickly. The further the conversations went on, the clearer design and finishing came up. Moreover, the price also has an influence. If the humidor costs more, the consumer expects that it looks luxurious. For instance, the finishing cannot be done with lacquer because it would look low quality. Therefore, design, detailing and finishing are important issues when making the buying decision. An expensive humidor must be a showpiece of the house, in fact, as much as the furniture is. What is then an expensive humidor? The target group was ready to pay 500 dollars for a fifty account desktop humidor. Nobody was ready to buy a bigger desktop humidor. Therefore, the demand is higher for smaller desktop and traveler humidors. If the price is increasing close to a thousand dollars and more, the humidor has to be a luxurious piece of furniture, in other words, the centerpiece of the house, as mentioned before.

As all marketing operations, promotion should also be targeted. It was revealed that many people smoke on the golf course. Therefore, it would be a good location to promote humidors. Moreover, cigar lounges are good places for promotion.

The future of cigar smoking appears good. It will not change because the devoted cigar smokers will continue smoking and they will find another way to smoke, even if the legislation is getting stricter. Therefore, the demand for humidors will probably stay the same no matter what happens with the legislation.

16 Process of the research

The research was started by segmentation. Cigar forums were full of information about users and humidors. In spite of the segmentation, all kinds of people were interviewed in cigar lounges. However, the only interviews which were made with the target group were analyzed because other interviewees did not have any useful information. They did not have knowledge about humidors. Therefore, it can be considered that the segmentation was correct and the expectations of the target group are reliable. The interviews support the segmentation previously evaluated, and the other way around. After a successful segmentation, the market analysis was easy to do because it means that the segment and the market are measurable. The size of the market and the competitors can be seen through a good market analysis. When the interviews gave information on what kind of humidors the target group would be ready to buy, the competitive advantages were deduced. When the products of the competitors and the consumers' expectations are known, the whole picture starts to be clear. Because the competitors do not fulfill all expectations, From the Cherry Tree can create a competitive advantage by a different product to meet the demand better. As a result, the company's positioning can be seen, in the market, as a manufacturer of a smaller desktop custom humidors. The segmentation showed that the target group is not very large. Therefore, niche strategy is suitable for a niche product. With this kind of product, micromarketing is necessary. From the Cherry Tree is operating in a small area, and the segment is very narrow. Therefore, all the marketing operations need to target this small group. The strategies given in this research can be seen as guidance and later be used by the company. (Figure 11.)

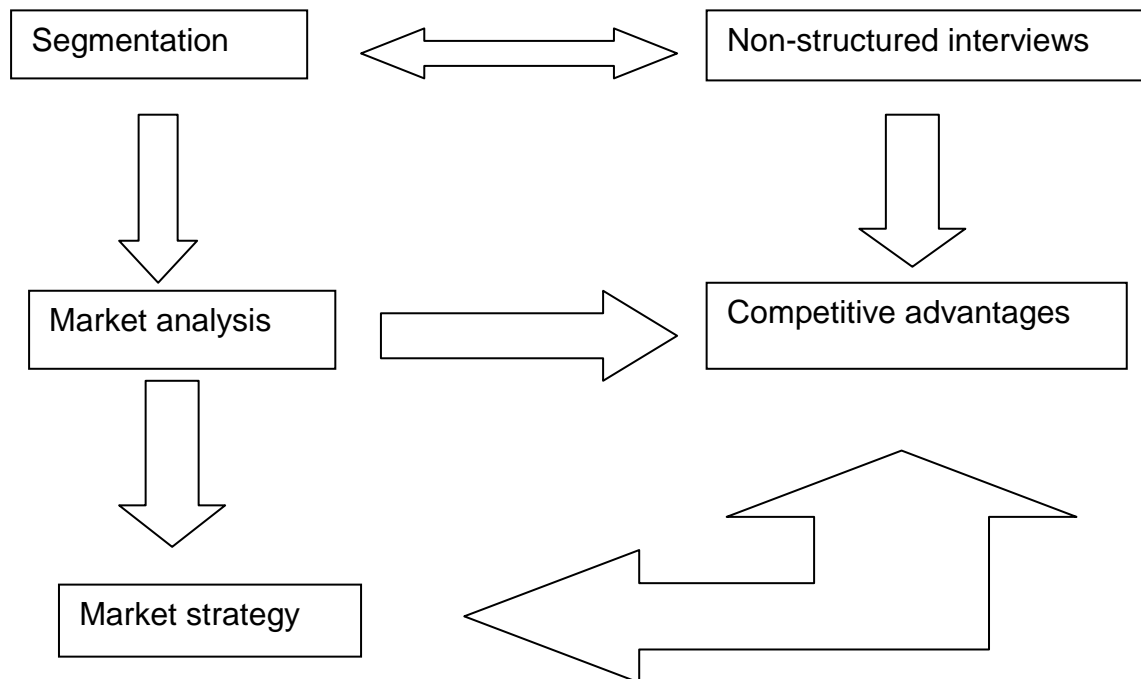


Figure 11. Process of the research

17 Research reliability and validity

In the end, the research succeeded well. The question: “Were there enough interviewees?” could be asked, but the answers obtained were all similar, thus more interviewees would not have changed the results. Would there be more information if there had been more interviews? Possibly not, because of the experience that the interviewer had at that time about the product, deeper interviews could not have been made. Furthermore, the interviewer was not an experienced psychologist or interviewer. However, all received information was reliable because all interviewees fulfilled the criteria perfectly. In addition, they were part of the target group. They were middle-aged men who smoked more than one or two cigars per month, and they all owned a humidor. Therefore, they had experience on humidors and a lot of valuable information. To sum up, all interviewees were chosen carefully because of the segmentation, and their participation is what made this research successful.

The core strategy was also successful, but the work is not over yet. Strategy is like a map, it is not the same as an action plan. It only gives the tools to reach the goal. Without an action plan, the strategy is just a good intention. In addition, the strategy should be examined every year and adjusted if necessary because the operational environment can change, and the company would have to change with it. For instance, if a new competitor would be identified, positioning should be done again. After the core strategy, From the Cherry Tree should concentrate on competitive strategies based on niche strategies. The company's core competence is a job-shop specialist, but it should also create some service strategies because of its central location in the market area.

18 Conclusion

The segment for the custom humidors is narrow. Therefore, it is not profitable to base a whole business on only humidors. If the market area were larger than Ottawa and Montreal, the business could be successful in focusing on only humidors. In addition, the price and size of the humidor is a difficult equation. Obviously, there is more demand for smaller humidors, but the price should really be thought through, in order to maximize the profit. There are no resources for mass production, but on the other hand, the higher the price is, the smaller the segment gets. One guideline was seen during the interviews. Interviewees were ready to pay 500 dollars for a fifty-account humidor, and if it costs more than a thousand dollar, it has to be a showpiece for the house, like furniture. In addition, the seal and finishing were important for the interviewees. It was seen as part of quality. Firstly, the design did not play a big part in the interviews. The most important was that it works properly, so the humidity stays inside. However, the longer they talked, the more the discussion went on the importance of the appearance. The interviewees wanted their humidors to look luxurious and not cheap.

If From the Cherry tree concentrated on smaller humidors, it would create a competitive advantage. It seems that there is more demand for smaller humi-

dors, therefore the company should concentrate more on small desktop humidors and traveler models, and leave bigger desktop humidors to Vanderburgh. Furthermore, the manufacture of humidors, such as the furniture looking ones, might be important to consider because there is no competition, and it was mentioned during the interviews. Besides, product differentiation service would be good to develop. If the customers are not ready to pay more than 500 dollars for a humidor, then the service could attract them in another way, in order to gain a profit. The geographical location makes the personal contact with the customer possible and that way, creates trust between clients and the manufacturer. Good service could help to manufacture humidors toward a showpiece of the house. In other words, micromarketing would be a good approach.

If later, the entrepreneur is willing to expand his market area, there might be more demand for bigger humidors. It was seen on internet forums that some people would be ready to pay a large amount of money for bigger humidors. However, it needs to be remembered that the segment is still really narrow. That internet group was operating in North America, and it had only two thousand members. Therefore, the markets can be divided into two parts. The local markets, where the demand is concentrating on smaller humidors, and the larger markets where there might be a demand for bigger humidors, but there, competition is harder because there are more operators.

If the company wants to invest in advertising or selling, it should be done in golf clubs. Because many smokers are playing golf and some of them are smoking at the same time, it would be a suitable place for it. Furthermore, cigar lounges and high cultural events might be good occasions to meet higher social class people who smoke cigars. Like all marketing implementation, advertising should be targeted, otherwise, it would be a waste of resources.

The future of cigar smoking looks quite good. Even when legislation is getting stricter, cigar smokers seem to find places and each other to smoke. As statistics presents it, smoking has increased in the two oldest age groups in the last few years. Therefore, it can be said that new cigar smokers are starting every year, even when the state makes smoking more difficult. Some smokers were ready to build their own cigar lounge in their home. In addition, it was possible

to read between the lines that there might be private cigar clubs in Ottawa and Montreal.

It is to be hoped that this research has shown the kind of market there is in the area of Ottawa and Montreal. In addition, it should help to develop the product and strategy in the right direction. Later on, deeper interviews, in order to create a design and services, would be recommended, and it might also be good to do the same research in Quebec City and Toronto, and compare the results. To keep the separation from the competitors and to create a competitive advantage needs a continual intake of information from within the markets.

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Focused interview in cigar lounge

Main idea is to interview 5 to 10 people or groups to get information about humidors and customer behavior. Because production of humidors is just begun, all kind of information is welcome, that is why we are going to do focused interview for the people in cigar lounge. People in cigar lounge are most often experienced cigar smokers, so they will have valuable information. And one reason why focused interview is better, we might get information which we did not even think about before. And of course people are more relaxed, when they don't have to fill survey. There will be three different themes to discuss and hopefully each interview last more than ten minutes. Because of length of the interview, we have to use tape recorder to get all information. All themes can be mixed and everybody can speak freely. Hopefully we do not have to participate much in interview so we don't affect answers

Theme 1

What makes good custom humidor?

In this theme we would like to have answers to questions why people want to buy custom humidor? What are they motives? Also we would like to have their opinions about material, do they prefer exotic hardwood or local hardwood like maple? Is it important for them, that manufacturer is local or does it matter if humidor is made from China? And what would be right prize for humidor, size of 150-200 cigars? How important is design? Is it important that humidor is individual and it fits to customer living room? Is it important that humidor is handcraft and not mass production? Do they have already humidor and are they

happy with it. If they are, why and if they not, we would like to know what is wrong?

Theme 2

Where can you buy custom humidor?

This question is all about markets and competitors and same time we can do advertising. Because there is not competition in Ottawa, we would like to know how important it is to have local manufacturer, who you can talk with. What is the best place to buy humidor? How much customer appreciate that his humidor is made in Canada? How many Canadian manufacturer they know? Who is the best? Is there niche market for custom humidor?

Theme 3

What is the future of the cigar smoker?

Because nowadays people cannot smoke indoors anymore, we would like to know how they see future? Is there young people coming or are all cigar smokers aging people? Are there any places where they can meet and smoke together? Are there any local cigar events?

How to approach?

Cigar lounge is place for cigar smokers, where they can relax and enjoy their hobby. That is why it is important to have a plan how to approach to keep everybody happy. Then results are better as well. Because it is their place to relax, they probably do not like too many questions. After we have introduced our selves, it may be better to let them start to talk and then try to guide them to our topic. First good question could be: "What kind of humidor you have and are you happy with it? If there is something wrong, what is it?" First they might be more willing to talk their own humidor and their hobby generally and after that we slowly guide them to our themes.