The Importance of Target Audience Selection for Kano Model Effectiveness
A Case Study of Klarna Group

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Abstract
The Kano model is a technique for a better understanding of the customers’ requirements, thus increasing the customers’ satisfaction. The process of identifying the customers’ requirements and increasing the customers’ satisfaction, by improving the offerings, is costly for the companies. In order not to waste resources, companies should firstly identify who their target audience is, through a market research. When companies understand who their target audience is, they are able to identify their requirements, in order to try to meet them, and increase customers’ satisfaction. The process of segmentation and targeting, helps companies to save time, money and effort, since the messages are directly delivered to those who are their target audience, and are really interested. Moreover, the companies using the focus groups and in-depth interviews can collect target audience’ requirements, in order to later on meet those requirements and increase the customers’ satisfaction. Furthermore, the findings revealed that for the companies in the online payment industry it is crucial to have a good reputation and be trustworthy.

Key words: Kano Model, Target Audience, Segmentation, Market Research, Klarna, Online Payment Industry

Introduction
“The Kano model provides an effective approach to prioritize customer requirements and to help understand the nature of them” (Garibay, Gutiérrez & Figueroa, 2010, p.128). Every company makes tremendous efforts to understand the customer requirements, as well as increase the customer satisfaction by improving its offerings, which is resource costly (Violante & Vezzetti, 2017; Wang & Ji, 2010). However, in order for the companies to be able to meet the customer requirements, and increase the customer satisfaction, companies need to be working on “identifying the critical factors that determine satisfaction, which is essential for the sustained success of any organization” (Violante & Vezzetti, 2017, p.15). Prior identifying the critical factors, which determine the customer satisfaction, companies should perform a market research and find out who their target audience is. Targeting is important, since the companies identify a well-defined set of customers, whose requirements need to be satisfied, thus not wasting resources (Kotler, 2012; Dibb & Simkin, 1996).
A large amount of literature is dedicated to the Kano Model, yet there has been only limited amount of studies that are indirectly touching some of the aspects of the importance of target audience selection for Kano Model effectiveness. Therefore, the purpose of this study is to fill in the research gap by exploring the importance of target audience selection for Kano Model effectiveness, through a case study of Klarna Group. Founded in 2005 in Stockholm, Klarna is one of Europe’s fastest growing companies. It offers safe and easy-to-use payment
solutions to e-stores. Klarna is active on 18 markets, serving 45 million consumers at 65,000 merchants, attracting major international clients such as Spotify, Disney, Samsung, Wish and ASOS. However, Klarna had a turbulent period at its beginning, since the company lacked reliability, thus having troubles to attract customers (Klarna, 2017).

This study is structured that first the theoretical background, covering many theories from previous research about the Kano Model, market research, sampling, etc. are presented. Thereafter, the research methodology and the case introduction are provided. Next, the analysis of the collected data is presented, and the findings are discussed. Finally, the study ends with the conclusion, implications and suggestions for further research.

**Kano Model**

Kano model is a technique developed in 1984, by Noriaki Kano, for a better understanding of customers’ requirements. This model aims to identify and improve the elements of customer satisfaction, as well as, eliminate the elements of dissatisfaction. Therefore, companies should provide quality elements, and exclude possible defects, based on the customers’ needs and requirements, as shown by the Kano Model analysis. (Borgianni & Rotini, 2015; Griffin & Hauser, 1993; Sauerwein, Bailom, Matzler & Hinterhuber, 1996; Kano, Seraku, Takahashi & Tsuji, 1984)

Kano Model establishes three types of requirement categories, which influence customers’ satisfaction and dissatisfaction: must-be, one-dimensional, and attractive. Must-be requirements represent the basic requirements, which if being fulfilled, they do not generate customer satisfaction, yet their absence causes high dissatisfaction. One-dimensional requirements are attributes regarding customers’ needs, thus, the higher number of this element, the more customers are satisfied. Attractive requirements represent unexpected surprises that will provoke high customer satisfaction, and their absence does not cause any dissatisfaction. (Kano, 2001; Borgianni & Rotini, 2015; Hinterhuber, Aichner & Lobenwein, 1994; Griffin, & Hauser, 1993; Chen & Chuan, 2011; Kano et. al., 1984)

Additional categories were created to enhance the model effectiveness, such as Indifferent and Reserve attributes. Indifferent quality attributes plays limited role in the delivery of customer satisfaction, the relationship between performance and consumer appreciation is unclear. Reverse quality attributes refer to elements which the presence contributes to dissatisfaction and its absence to satisfaction (Meng, Zhou, Tian, Chen, & Zhou 2011; Borgianni & Rotini, 2015; Chen & Chuan, 2011; Delice & Gungor, 2009; Sauerwein et al, 1996).

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![Figure 1. Kano Model (Kano et. al., 1984)](image-url)
Market Research – Segmentation and Targeting

Market Research
Market research is an important tool used by organizations to investigate and answer questions about their customers’ behavior, desires, necessities, and expectations. The market research provides companies with valuable and reliable insights about their customers, in order for the companies to make better decisions. The market research is a process, which requires good and reliable data collection, as well as, effective communication and interpretation of the results. (Bont & Hamerveld, 2007)

In addition to a good data collection, communication, and interpretation, it is essential to understand the customers’ experiences. The customers’ experiences have considerable impact on customers’ behavior, choice, attitudes, and satisfaction. Therefore a good comprehension of customers’ experiences helps the company to perceive insights about the ways customers’ experiences can affect their relationship with the products, services and the brands. Moreover, companies can provide appealing experiences to their customers, in order to get feedback and performance evaluation, before launching the product or service. (Schmitt, 1999; Schmitt, 2003; Gentile, Spiller, & Noci, 2007)

Segmentation
Companies aiming for an effective communication with their customers, try to identify and understand the groups which are their main focus, through the process of segmentation. The process of segmentation, saves time, money and effort for the companies, since the messages are directly delivered to those who are really interested. (Kotler & Keller, 2009; Dibb & Simkin, 1996; Lynn, 2011)

Market segmentation is the process of dividing a large population of interest into small and homogenous groups, according to a range of criteria. The audience is very specialized and there is a need for reaching a specific subgroup. Therefore, this process allows specialized fragmentation of a relevant market group into homogenous units. (Angell & Angell, 2013; Armstrong & Kotler, 2005; Dibb & Simkin, 1996; Lynn, 2011)

A definition provided by Kotler and Armstrong (2005) define market segmentation as “a division of a market into different groups of consumers with different needs, characteristics, and behavior, who may require products or marketing mixes according to their singularities.”

Targeting
A deep research and analysis is important in order to identify which customer groups and segments of interest to target (Dibb & Simkin, 1996). Defining and selecting the target audience in business, facilitates the communication between the company and customers, based on a reliable and direct communication. Companies can understand their customer better, as the messages and feedbacks, are more relevant when reaching the right audience. Therefore, in order for the companies to be perceived the way their main groups of interest want, the companies need to adapt themselves to their target audiences’ needs, wants and values (Kotler & Keller, 2009; Lynn, 2011). Kotler (2012) defines targeting as a well-defined set of customers whose needs the organization plans to satisfy.

Sampling in Marketing Research - Sample Selection, Sampling Bias, Non Probability and Probability Sampling, Focus Groups and In-depth Interviews

Sample selection
The sample selection plays an important role, as all the insights and data comes from the selected group. It is essential to select a group for study, which fits the best into the purpose
of the study, as well as, a group that can provide relevant and useful information regarding the topic or subject of interest. (Thompson, 2012; Bryman & Bell, 2015; Malhotra, 2013)

According to Thompson (2012), sampling or sample selection is a process which consists of selecting groups from populations of interest, in order to observe and estimate patterns and develop analysis and results, which can also be applicable for the whole population.

**Sampling Bias**
Sample bias can be understood as a distortion in the representativeness of the sample. It may be caused by choosing a non-random sample or data. The bias exists due to a selection process that privileges some particular groups with specific attributes in comparison to others. (Bryman & Bell, 2015; Thompson, 2012)

**Non Probability and Probability Sampling**
There are two types of sampling: non probability and probability sampling. Both models are useful and should be applied depending on the specificity of the group or subject of study. (Bryman & Bell, 2015; Thompson, 2012)

Probability sampling, or random sampling, is the selection from a population without any previous consideration or requirement. In this model, all the members of a given target population have equal chances of being selected. (Crawford, 1990; Bryman & Bell, 2015; Thompson, 2012)

For the Kano Model analysis, the non-probability sampling is used more, as it can extract data from groups of real interest and somehow linked to the studied topic. Non-probability sampling is based on the selection of a unit group selected from a population that is of interest. In this model, potential participants can be located or recruited based on primary considerations. (Bryman & Bell, 2015; Thompson, 2012)

**Focus Groups and In-depth Interviews**
There are various techniques and instruments used to collect data for research. For the Kano Model Analysis, focus groups and in depth interviews have been the most widely used instruments for collecting data, since those instruments are able to provide valuable and reliable data and insights. The data collection based on focus groups consists of group discussions about certain topics, as a way to identify the perceptions, thoughts, feedbacks and impressions from the groups (Zaharia, Grundey & Stancu 2008). Focus groups are especially useful when the study is focused on small groups, thus, generating more precise and valuable information (Zaharia, Grundey & Stancu 2008).

The in-depth interview is a technique used mostly to picture a deeper participant’s perspective on the topic being researched. In depth interviews is an effective qualitative method able to generate specific and detailed data from the participants. (Zaharia, Grundey & Stancu, 2008)

**Methodology**
The aim of this study is to explore the importance of target audience selection for Kano Model effectiveness, since there are no previous studies that are exploring the connection between the Kano Model effectiveness and the importance of the target audience selection. Therefore, this study has exploratory research design that is often referred to as qualitative research (Saunders, Lewis & Thornhill, 2007). As defined by Wilson (2006, p. 105), “qualitative research can be defined as research that is undertaken using an unstructured research approach with a small number of carefully selected individuals to produce non-quantifiable insights”. One of the strengths of qualitative research is the “richness and holism,
with strong potential for revealing complexity” (Miles & Huberman, 1994). To reach the aims of this qualitative study, a case study design was chosen. As defined by Yin, a case study is “an empirical inquiry about a contemporary phenomenon (e.g., a “case”), set within its real-world context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 1994, p. 18). A case study has the ability to generate the answers for the basic qualitative study questions “why?”, “what?”, and “how?” For this reason, the case study strategy is most often used in qualitative / exploratory research (Yin, 1994). According to Leedy and Ormrod (2001), “a case study may be especially suitable for learning more about a little known or poorly understood situation”. Since there is only limited amount of research that is indirectly touching some aspects of the Kano Model effectiveness and the importance of target audience selection, the case study was chosen to study that connection in order to get a deeper knowledge. Klarna Group, a Swedish company which provides online payment solutions to e-stores in different countries, was chosen for case study since the company had a turbulent beginning due to the lack of reliability and problems with target audience selection, thus not attracting many customers.

This study takes an abductive approach, which is a combination of both, induction and deduction. Abductive research uses frameworks built on the existing literature, but at the same time, allows for the new concepts to emerge from the research. Thus, abductive research is a mix of induction between induction and deduction. By using the abductive approach, the researcher is in a constant process of revision and interpretation between trying to identify patterns in the data collected and consulting theoretical constructs in order to explain and evaluate them (Dubois & Gadde, 2002). Due to time and resource constraints the study is based on secondary data. The secondary data is in the forms of both qualitative and quantitative information. Qualitative data was gathered from articles, literature reviews, annual reports, case studies, online articles, an e-documentary and magazines, while the quantitative data was collected from the annual reports published by Klarna Group. After the data was collected, as the abductive research approach suggests, the previous literature, which was presented above, was considered during the data analysis. The aim of the data analysis was to discover the importance of target audience selection for Kano Model effectiveness. Regarding the limitations, parts of the analysis are subjective to the author's opinions. Furthermore, the paper analyses only one case study, therefore, findings might not be applicable and give an in-depth overview on the entire payment industry.

**Case Introduction - Klarna Group**

Klarna Group was founded in 2005 in Sweden, as Kreditor Europe AB. The company changed its name in January 2009, in order to have a name which is more suitable for a company that aims to internationalize (Klarna, 2017; e-documentary, 2016). The company was founded by three twenty-three-years-old guys (Sebastian Siemiatkowski, Niklas Adalberth, and Victor Jacobsson) who had no finance or previous work experience (Crouch, 2015). Today, Klarna Group is active on 18 markets, and has more than 1400 employees. It serves 45 million consumers and works with 65,000 merchants, including Spotify, Disney, Samsung, Wish and ASOS. Besides the office in Stockholm, the company has additional offices in San Francisco and New York City (Klarna, 2017).

Klarna’s mission is to ease the online payment process both for buyers and sellers, as well as to make it more secure. The company provides online payment solutions to e-stores in return for a fraction of each transaction of the online stores. It offers three different products which lower the online stores’ credit-, delivery- and trade risk (Klarna, 2017). The technology is built up of algorithms that can determine if the buyer is creditworthy (Getting more ambitious, 2016). The data used for calculating the risk is a combination of different data, such as credit scores and consumer behavior (Williams-Grut, 2015). Furthermore, Klarna
Group operates in such an industry, in which trustworthiness is crucial. Therefore, having a good relationship with customer enables the company to get to know their customers better to provide products and services they need, want and satisfy. The use of market research tools, such as Kano Model, has been proven to be a useful tool for companies to identify and meet the requirements of their target customers (Klarna, 2017; Kreutzer, 2011).

**Case Study Analysis**

In a world dominated by technology, the online services have been spreading with a dramatic speed. Base on that, this study aims to evaluate and measure how effective market research, in particular Kano Model, can provide good feedback when concentrated on the right target group. It is of high interest to investigate and understand how the technological companies, digital and online service providers, communicate with their customers. Once the service is offered with little or without any interaction between the companies and the customers, the Kano Model may be a helpful tool to get to know the target customers’ necessities, wishes and satisfaction.

The Kano Model aims to identify and improve elements of customer satisfaction, as well as eliminate elements of dissatisfaction. Therefore, companies can provide quality elements and exclude undesired features and defects based on customers’ needs and requirements, shown with Kano Model analysis (Borgianni & Rotini, 2015; Griffin, & Hauser, 1993; Sauerwein et al, 1996).

Klarna was founded by young entrepreneurs with little work experience and knowledge of the market and customers (Klarna, 2017). This scenario, along with the lack of trust and recognition, made it a difficult beginning for them. Therefore, there was a need of conducting researches about the market and the target audience to get to know them in-depth.

Market research is an important tool used by organizations to investigate and answer questions about their customers. The market research provides companies with reliable and valuable insights that help the companies to make better decisions. The market research requires good and reliable data collection, as well as effective communication and interpretation of the results (Bont & Hamerveld, 2007). Besides that, it is essential to pay attention and understand the customers’ experiences, especially with the product or service offered. The customers’ experiences have considerable impact on customers’ behavior, choice, attitudes, and satisfaction. Companies can provide appealing experiences to their customers, in order to get feedback and performance evaluation before launching their product or service (Schmitt, 1999; Schmitt, 2003; Gentile, Spiller & Noci, 2007). Klarna is continuously conducting market research in order to find the customers’ behavior, choice, attitudes, and satisfaction (Klarna, 2017).

Klarna contacted with a business angel named Jane Walerud, who helped them gain trust and reliability at the market. This fact helped Klarna to improve their reputation in the market (Kreutzer, 2011). Besides that, Klarna also started strategically signing partnerships with smaller e-commerce companies, in order to build a portfolio and get the know-how and the knowledge about the market, before they reach larger e-commerce companies with different target audience (Klarna, 2017; Kreutzer, 2011).

Companies aiming for an effective communication with their customers, identify their target audience by segmentation (Kotler & Keller, 2009; Dibb & Simkin, 1996; Lynn, 2011). Market segmentation is the process of dividing a large population of interest into small and homogenous groups, based on a range of criteria. (Angell & Angell, 2013; Armstrong & Kotler, 2005; Lynn, 2011). Klarna had a turbulent beginning due to the lack of right segmentation and targeting, thus not attracting the right customers (e-documentary, 2016). Therefore, targeting and segmentation, are important things that companies should do right
from the start-up, since they provide companies with reliable and valuable data and insights, for a better understanding of their targeted customers.

For an effective research, including market research, a good sample selection of the target audience is important, since the data and the insights are coming from that selected group. It is essential to select a group of study, which fits the best into the purpose of the study, as it can provide more valuable and useful information regarding the topic or the subject that is studied. (Thompson, 2012; Bryman & Bell, 2015; Malhotra, 2013)

In Klarna’s case, non-probability sampling was chosen, as it relies more on extracting data from groups of real interest. In this model, potential participants are located or recruited based on primary considerations (Bryman & Bell, 2015; Thompson, 2012). However, when dealing with a non-probability sampling, it is important to pay attention and conduct a research avoiding biases, and distortions in the representativeness of the sample.

Since Klarna nowadays is a successful and fast-growing company, while it had a turbulent beginning, it is possible to say that selecting and studying the right target audience was beneficial for Klarna (e-documentary, 2016). Besides that, the relationships with the partners, enabled Klarna to approach their final customers efficiently, by engaging different e-commerce and e-shops (Kreutzer, 2011). However, due to the trust-sensitive industry that they were operating in, the company faced issues in engaging potential customers. Credibility and trust were seen as a must-be dimension for the customers when dealing with online payment systems. A requirement that was fulfilled after contacting with the business angel.

The main resources needed for Klarna’s effective and efficient operating are: human capital, know-how and credibility. Therefore, capable work force, as well as capable partners, enable good management of information and knowledge from their target audience (Kreutzer, 2011; Fenn & Aghajanpou, 2016). Klarna hired local researchers in the markets that they operate, due to their local knowledge and know-how. This strategy has been perceived as a key strategy for Klarna to develop and design its service’s user interface (Fenn & Aghajanpou, 2016). Besides that, it provided Klarna with a clear picture about their target and their requirements. Consequently, the importance of local know-how has been proven to be an important facilitator for Klarna’s development in the new markets (Kreutzer, 2011; Fenn & Aghajanpou, 2016). Therefore, there is a clear relationship between the target audience selection in market research, such as Kano Model analysis, for identifying and satisfying the target audience’ requirements, as well as effective and efficient operating.

**Conclusion**

Since the study is based on secondary data, due to time and resource constraints, it is not possible to conclude that the market research that Klarna did was a Kano Model Analysis. However, the data that was collected, indicates the same ways and the same aims of their market research, as the Kano Model. Klarna nowadays is a successful and fast-growing company, while it had a turbulent beginning. It is possible to say that continuously conducting market research, was beneficial for Klarna, since the company was able to select and study the right target audience and learn about their requirements. Besides that, the relationships with the partners, enabled Klarna to approach their final customers efficiently, by engaging different e-commerce and e-shops (Kreutzer, 2011).

Moreover, the data showed how important it is for the companies in the online payment industry, to have a good reputation and be trustworthy. Those two characteristics were perceived as a must-be requirements from the customers. The study revealed that, these characteristics can be gained through developing and maintaining a good relationship with the customers. Customer care service, is a good way of establishing a good relationship with the customers, as it enhances trustworthiness, as well as allows the company to find more about their customers’ needs, desires, and the level of satisfaction with their offerings.
Moreover, that kind of communication is crucial for companies gaining insights how to improve their offerings.

**Implications**

In order for the companies to be able to meet the customers’ requirements and increase the customer satisfaction, companies should first of all, find out who their target audience is. Companies can identify their target audience through segmentation and targeting. If the targeting and segmentation are done right, companies can save resources, since they will conduct market research, Kano model analysis, only on their target audience. Moreover, companies will be able to gather insights and information directly from the group of their interest, and improve their offerings, thus increasing the customer satisfaction. Furthermore, it is important for the companies to conduct market research right from the start-up, even before the establishment, and repeat the market research from time to time, in order to get the latest insights and information from their target audience.

It is crucial for the companies in the online payment industry to have a good reputation and be trustworthy. Those two characteristics were perceived as a must-be requirements from the customers. In order for the companies to boost their reputation and be perceived as trustworthy, they should develop and maintain a good relationship with the customers. One way of developing and maintaining a good relationship with the customers, is providing them with a customer care service, as it enhances trustworthiness, as well as allows the company to find more about their customers’ needs, desires, and the level of satisfaction with their offerings.

**Suggestions for further research**

Since this is a case study, a further research can be a cross-case analysis of several companies from the online payment industry, or several companies from different industries. Another research can explore the connection between the market research and business success or failure, as well as the effectiveness of Kano Model analysis for product and service development. Moreover, there can be a research on the alternative ways of interacting, communicating and extracting data from customers, aside from the traditional market research. Furthermore, a research can be conducted in order to explore the ways that the online service providers can develop and maintain relationships with their customers.

**References**


