

## CHAPTER 8

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IDENTIFYING MARKET  
SEGMENTS AND TARGETS



dormant potential of the market needs innovative thinking. C. K. Prahalad argues for the need to engage consumers at the bottom of the pyramid (BOP) through market-development efforts by companies.<sup>3</sup> Prahalad states, "If large firms approach this market with the BOP consumers' interests at heart, it can also lead to significant growth and profits for them."<sup>4</sup>

To compete more effectively, many companies are now embracing target marketing. Instead of scattering their marketing effort (a "shotgun" approach), they focus on those consumers they have the greatest chance of satisfying (a "rifle" approach).

Effective target marketing requires that marketers:

1. Identify and profile distinct groups of buyers who differ in their needs and preferences (market segmentation).
2. Select one or more market segments to enter (market targeting).
3. For each target segment, establish and communicate the distinctive benefit(s) of the company's market offering (market positioning).

This chapter will focus on the first two steps. Chapter 11 discusses brand and market positioning.

### ::: Levels of Market Segmentation

The starting point for discussing segmentation is **mass marketing**. In mass marketing, the seller engages in the mass production, mass distribution, and mass promotion of one product for all buyers. Henry Ford epitomized this strategy when he offered the Model-T Ford in one color, black. Coca-Cola also practiced mass marketing when it sold only one kind of Coke in a 6.5-ounce bottle.

The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. However, many critics point to the increasing splintering of the market, which makes mass marketing more difficult. The proliferation of advertising media and distribution channels is making it difficult and increasingly expensive to reach a mass audience. Some claim that mass marketing is dying. Most companies are turning to *micromarketing* at one of four levels: segments, niches, local areas, and individuals.

### Segment Marketing

A market segment consists of a group of customers who share a similar set of needs and wants. Thus we distinguish between car buyers who are primarily seeking low-cost basic transportation, those seeking a luxurious driving experience, and those seeking driving thrills and performance. We must be careful not to confuse a *segment* and a *sector*. A car company might say that it will target young, middle-income car buyers. The problem is that young, middle-income car buyers will differ about what they want in a car. Some will want a low-cost car and others will want an expensive car. Young, middle-income car buyers are a sector, not a segment.

The marketer does not create the segments; the marketer's task is to identify the segments and decide which one(s) to target. Segment marketing offers key benefits over mass



The Model T: Henry Ford was the first to mass-market automobiles. Ford mass-produced by assembly line, mass-distributed through dealers, and mass-promoted one product for all buyers in ads like these.

marketing. The company can presumably better design, price, disclose and deliver the product or service to satisfy the target market. The company also can fine-tune the marketing program and activities to better reflect competitors' marketing.

However, even a segment is partly a fiction, in that not everyone wants exactly the same thing. Anderson and Narus have urged marketers to present flexible market offerings to all members of a segment.<sup>5</sup>

A **flexible market offering** consists of two parts: a *naked solution* containing the product and service elements that all segment members value, and *discretionary options* that some segment members value. Each option might carry an additional charge. For example, automobile companies in India offer different versions of the same model but with different features. The base model of the vehicle may not have air conditioning or power steering or power windows. But for the models that have these features, the buyer has to pay higher prices. Similarly, domestic airlines in India offer economy class and business or executive class for travelers, and the prices of these two options differ significantly. The executive or business-class passengers get extra facilities such as more comfortable seats, better menu, and greater preference while checking in and boarding the aircraft.

Market segments can be defined in many different ways. One way to carve up a market is to identify *preference segments*. Suppose ice cream buyers are asked how much they value sweetness and creaminess as two product attributes. Three different patterns can emerge.

1. **Homogeneous preferences** – Figure 8.1(a) shows a market where all the consumers have roughly the same preferences. The market shows no natural segments. We would predict that existing brands would be similar and cluster around the middle of the scale in both sweetness and creaminess.
2. **Diffused preferences** – At the other extreme, consumer preferences may be scattered throughout the space (Figure 8.1[b]), indicating that consumers vary greatly in their

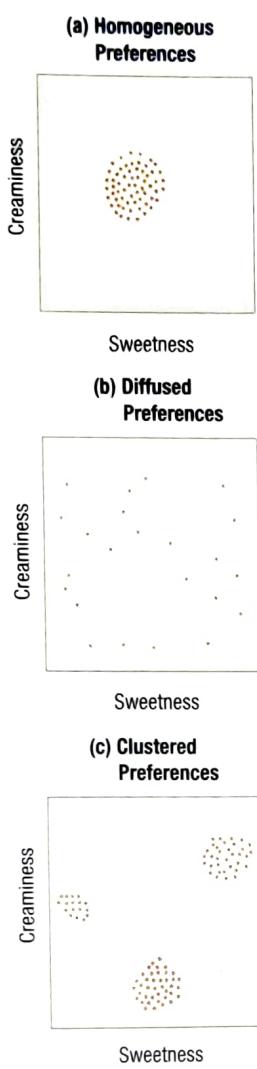


FIG. 8.1

Basic Market-Preference Patterns

preferences. The first brand to enter the market is likely to position itself to appeal to the most people. A second competitor could locate next to the first brand and fight for market share, or it could locate in a corner to attract a customer group that was not satisfied with the center brand. If several brands are in the market, they are likely to position themselves throughout the space and show real differences to match differences in consumer preference.

3. **Clustered preferences** – The market might reveal distinct preference clusters, called *natural market segments* (Figure 8.1[c]). The first firm in this market has three options. It might position in the center, hoping to appeal to all groups. It might position in the largest market segment (*concentrated marketing*). It might develop several brands, each positioned in a different segment. If the first firm developed only one brand, competitors would enter and introduce brands in the other segments.

Later in this chapter, we will consider various ways to segment and compete in a market.

## Niche Marketing

A niche is a more narrowly defined customer group seeking a distinctive mix of benefits. Marketers usually identify niches by dividing a segment into subsegments. For example, Progressive, a Cleveland auto insurer, sells “nonstandard” auto insurance to risky drivers with a record of auto accidents, charges a high price for coverage and makes a lot of money in the process.

An attractive niche is characterized as follows: The customers in the niche have a distinct set of needs; they will pay a premium to the firm that best satisfies their needs; the niche is not likely to attract other competitors; the niche gains certain economies through specialization; and the niche has size, profit, and growth potential. Whereas segments are fairly large and normally attract several competitors, niches are fairly small and normally attract only one or two.

Larger companies, such as IBM, have lost pieces of their market to nichers: This confrontation has been labeled “guerrillas against gorillas.”<sup>6</sup> There are several companies in India with niche products in their portfolio. For example, Ezee, the liquid detergent from Godrej, is a fabric-washing product for woolen clothes. Due to its mildness, customers use this detergent to wash delicate clothes that could get damaged if harsh and strong detergents are used instead. Crack, an ointment from Paras Pharmaceuticals, is another example of a product with niche focus. This product is primarily targeted at women for prevention and treatment of cracked heels that develop due to inadequate protection and care. Itchguard, another product from the same company, focuses on the niche requirement of treating itching sensation due to perspiration during the summer. Several television channels in India are niche focused, though the size of the audience may be large. For example, there are several television channels in regional languages that focus on religion and spirituality. Likewise, there are also several niche magazines in India focused on special-interest readers. *Better Photography* is a magazine targeted at the niche segment of serious amateur photographic enthusiasts. There are several such magazines for specific interest groups such as motorcycle enthusiasts, automobile enthusiasts, sports enthusiasts, or for those interested in architecture, and home decoration. Each of these magazines address specific market requirements.

Niche marketers presumably understand their customers’ needs so well that the customers willingly pay a premium. Ayurvedic and “all-natural” products usually command a premium. Himalaya Herbal Healthcare, for example, specializes in ayurvedic products for general health as well as for specific therapeutic functions. Spirulina, an extract of a specific “blue-green” algae, promoted as a natural food supplement for health, commands a premium price. As marketing efficiency increases, niches that were seemingly too small may become more profitable.<sup>7</sup>

In the world of pharmaceuticals, biotech company Genentech stands out for developing drugs that target tiny niche markets instead of going after blockbusters like Pfizer’s Lipitor or Merck’s Zocor, cholesterol medications that rack up billions of dollars in sales:

### GENENTECH

San Francisco-based Genentech pursues “targeted therapies,” drugs aimed at relatively small subsets of patients. The drugs produce the same kind of dramatic benefit doctors get when they identify the specific type of bacteria causing an infection and slam it with the right antibiotic. A few years ago, the company launched the first highly targeted therapy—Herceptin, a breast-cancer drug that is prescribed only to the 25 percent or so of patients whose tumors harbor a particular genetic quirk—and it hasn’t looked back.

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By focusing on ayurvedic medicines and health supplements, Himalaya Herbal Healthcare serves a growing niche market.

Genentech's targeted therapies make economic sense because the company is small, doesn't need to sell billions of dollars of drugs each year to support an army of sales reps or marketing executives, and can charge premium prices because its anti-cancer drugs really work. Genentech's revenues were \$3.3 billion in 2003, up 24 percent from 2001.<sup>8</sup>

Globalization has facilitated niche marketing. For example, the German economy has more than 300,000 small and midsized companies (known as *the Mittelstand*). Many enjoy over 50 percent market share in well-defined global niches. Hermann Simon dubbed these global niche leaders "hidden champions."<sup>9</sup> Here are some examples:

- Tetra Food supplies 80 percent of the food for feeding pet tropical fish.
- Hohner has 85 percent of the world harmonica market.
- Becher has 50 percent of the world's oversized umbrella market.
- Steiner Optical has 80 percent of the world's military field glasses market.

These hidden champions tend to be found in stable markets, are typically family owned or closely held, and are long lived. They are dedicated to their customers and offer superior performance, responsive service, and punctual delivery (rather than low price) as well as customer intimacy. Senior management emphasizes continuous innovation and stays in direct and regular contact with top customers.

The low cost of setting up shop on the Internet has also led to many small business start-ups aimed at niches. The recipe for Internet niching success: Choose a hard-to-find product that customers do not need to see and touch. There are several specialized Indian Web sites focused on niche segments that are performing well. Matrimonial Web sites such as [www.shaadi.com](http://www.shaadi.com)

and [www.jeevansathi.com](http://www.jeevansathi.com) are two examples. Another Web site, [www.naukri.com](http://www.naukri.com), which focuses on job opportunities in India, has become one of the favored destinations for people searching for appropriate job opportunities. This Web site provides its services not only to individual job seekers but also offers its services to companies to identify potential candidates.

## Local Marketing

Target marketing is leading to marketing programs tailored to the needs and wants of local customer groups (trading areas, neighborhoods, even individual stores). Many banks in India have "specialized" branches that exclusively cater to corporate customers. The services in those branches are customized to serve the needs of business customers. Many banks have NRI branches in Kerala to cater to the needs of families whose relatives remit money from abroad, especially from the Middle East. Similarly, there are "in-city" courier companies in many cities that specialize in delivering mail and packets on the same day within a specified geographical area, usually within the same city.

Local marketing reflects a growing trend called grassroots marketing. Marketing activities concentrate on getting as close and personally relevant to individual customers as possible. Much of Nike's initial success has been attributed to the ability to engage target consumers through grassroots marketing such as sponsorship of local school teams, expert-conducted clinics, and provision of shoes, clothing, and equipment.

A large part of local, grassroots marketing is experiential marketing, which promotes a product or service not just by communicating its features and benefits, but by also connecting it with unique and interesting experiences. One marketing commentator describes experiential marketing this way: "The idea is not to sell something, but to demonstrate how a brand can enrich a customer's life."<sup>10</sup> "Marketing Insight: Experiential Marketing" describes the concept of Customer Experience Management.

Pine and Gilmore, who are pioneers on the topic, have argued that we are on the threshold of the "Experience Economy," a new economic era in which all businesses must orchestrate memorable events for their customers.<sup>11</sup> They assert:

- If you charge for stuff, then you are in the *commodity business*.
- If you charge for tangible things, then you are in the *goods business*.
- If you charge for the activities you perform, then you are in the *service business*.
- If you charge for the time customers spend with you, then and only then are you in the *experience business*.

Citing examples of a range of companies from Disney to AOL, they maintain that salable experiences come in four varieties: entertainment, education, esthetic, and escapist. VANS, which pioneered slip-on sneakers for skateboarding, has succeeded in that market with an offbeat marketing mix of events, sponsorships, and even a documentary film, all celebrating the skateboard culture.<sup>12</sup> VANS' CEO Gary Schoenfeld proclaims, "Our vision is not to hit our target audience over the head with our ads, but to integrate ourselves into the places they are most likely to be."

Those who favor localized marketing see national advertising as wasteful because it is too "arm's length" and fails to address local needs. Those against local marketing argue that it drives up manufacturing and marketing costs by reducing economies of scale. Logistical problems are magnified. A brand's overall image might be diluted if the product and message are different in different localities.

## Customerization

The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing."<sup>13</sup>

Today customers are taking more individual initiative in determining what and how to buy. They log onto the Internet; look up information and evaluations of product or service offers; dialogue with suppliers, users, and product critics; and in many cases, design the product they want. More online companies today are offering customers a Choiceboard, an interactive online system that allows individual customers to design their own products and services by choosing from a menu of attributes, components, prices, and delivery options. The customer's selections send signals to the supplier's manufacturing system that set in motion the wheels of procurement, assembly, and delivery.<sup>14</sup>



## MARKETING INSIGHT

Through several books and papers, Columbia University's Bernd Schmitt has developed the concept of *Customer Experience Management (CEM)*—the process of strategically managing a customer's entire experience with a product or company. According to Schmitt, brands can help to create five different types of experiences: (1) Sense, (2) Feel, (3) Think, (4) Act, (5) Relate. In each case, Schmitt distinguishes between hard-wired and acquired experiential response levels. He maintains that marketers can provide experiences for customers through a set of experience providers.

1. **Communications:** advertising, public relations, annual reports, brochures, newsletters, and magalogs.
2. **Visual/verbal identity:** names, logos, signage, and transportation vehicles.
3. **Product presence:** product design, packaging, and point-of-sale displays.
4. **Co-branding:** event marketing and sponsorships, alliances and partnerships, licensing, and product placement in movies or TV.
5. **Environments:** retail and public spaces, trade booths, corporate buildings, office interiors, and factories.
6. **Web sites and electronic media:** corporate sites, product or service sites, CD-ROMs, automated e-mails, online advertising, and intranets.
7. **People:** salespeople, customer service representatives, technical support or repair providers, company spokespersons, and CEOs and other executives.

The CEM framework is made up of five basic steps:

1. **Analyzing the experiential world of the customer:** gaining insights into the sociocultural context of consumers or the business context of business customers.

Sources: [www.exgroup.com](http://www.exgroup.com); Bernd Schmitt, *Customer Experience Management: A Revolutionary Approach to Connecting with Your Customers* (New York: John Wiley and Sons, 2003); Bernd Schmitt, David L. Rogers, and Karen Vrotsos, *There's No Business That's Not Show Business: Marketing in an Experience Culture* (Upper Saddle River, NJ: Prentice Hall, 2003); Bernd Schmitt, *Experiential Marketing: How to Get Companies to Sense, Feel, Think, Act, and Relate to Your Company and Brands* (New York: Free Press, 1999); Bernd Schmitt and Alex Simonson, *Marketing Aesthetics: The Strategic Management of Brands, Identity and Image* (New York: Free Press, 1997).

## EXPERIENTIAL MARKETING

2. **Building the experiential platform:** developing a strategy that includes the positioning for the kind of experience the brand stands for ("what"), the value proposition of what relevant experience to deliver ("why"), and the overall implementation theme that will be communicated ("how").
3. **Designing the brand experience:** implementing their experiential platform in the look and feel of logos and signage, packaging, and retail spaces, in advertising, collaterals, and online.
4. **Structuring the customer interface:** implementing the experiential platform in the dynamic and interactive interfaces including face-to-face, in stores, during sales visits, at the check-in desk of a hotel, or the e-commerce engine of a Web site.
5. **Engaging in continuous innovation:** implementing the experiential platform in new-product development, creative marketing events for customers, and fine-tuning the experience at every point of contact.

Schmitt cites Pret A Manger, the U.K.-based sandwich company, as an example of a company that provides an attractive brand experience, customer interface, and ongoing innovation: "The Pret A Manger brand is about great tasting, handmade, natural products served by amazing people who are passionate about their work. The sandwiches and stores look appealing and attractive. The company hires only 5% of those who apply and only after they have worked for a day in the shop. This process ensures good fit and good teamwork." He also offers Singapore Airlines, Starbucks, and Amazon.com as outstanding providers of customer experiences.

Wind and Rangaswamy see the Choiceboard as a movement toward "customerizing" the firm.<sup>15</sup> **Customerization** combines operationally driven mass customization with customized marketing in a way that empowers consumers to design the product and service offering of their choice. The firm no longer requires prior information about the customer, nor does the firm need to own manufacturing. The firm provides a platform and tools and "rents" out to customers the means to design their own products. A company is customerized when it is able to respond to individual customers by customizing its products, services, and messages on a one-to-one basis.<sup>16</sup>

Each business unit will have to decide whether it would gain more by designing its business system to create offerings for *segments* or for *individuals*. Companies that favor segmentation see it as more efficient, as requiring less customer information, and as permitting more standardization of market offerings. Those who favor individual marketing claim that segments are a fiction, that individuals within so-called segments differ greatly, and that marketers can achieve much more precision and effectiveness by addressing individual needs.

Customization is certainly not for every company: It may be very difficult to implement for complex products such as automobiles. Customization can raise the cost of goods by more than the customer is willing to pay. Some customers do not know what they want until they see actual products. Customers cannot cancel the order after the company has started to work on the product. The product may be hard to repair and have little sales value. In spite of this, customization has worked well for some products. Paint companies such as Asian Paints, Goodlass Nerolac, Jenson & Nicholson, and Berger Paints follows the mass-customization strategy in paint retailing. These companies facilitate customers to mix and match colors of their choice from the catalogue on the computer, and the desired color is mixed in quantities needed by the customers from the equipments installed at the retail points. This provides a wide range of colors for the customers to choose from.

### ::: Segmenting Consumer Markets

Two broad groups of variables are used to segment consumer markets. Some researchers try to form segments by looking at descriptive characteristics: geographic, demographic, and psychographic. Then they examine whether these customer segments exhibit different needs or product responses. For example, they might examine the differing attitudes of "professionals," "blue collars," and other groups toward, say, "safety" as a car benefit.

Other researchers try to form segments by looking at "behavioral" considerations, such as consumer responses to benefits, use occasions, or brands. Once the segments are formed, the researcher sees whether different characteristics are associated with each consumer-response segment. For example, the researcher might examine whether people who want "quality" rather than "low price" in buying an automobile differ in their geographic, demographic, and psychographic makeup.

Regardless of which type of segmentation scheme is employed, the key is that the marketing program can be profitably adjusted to recognize customer differences. The major segmentation variables—geographic, demographic, psychographic, and behavioral segmentation—are summarized in Table 8.1.

### Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, states, regions, countries, cities or neighborhoods. In the Indian context, geographic segmentation assumes importance due to variations in consumer preferences and purchase habits across different regions and states of the country.

One of the major geographic segmentation variables relevant for marketers in India is the division of markets into rural and urban areas. Differences in urban and rural markets, based on different parameters including market potential, have major implications for marketers. The need to segment the market geographically becomes clearer when we look at some of the characteristics of the market. In India, there are more than 5000 towns and over 638,000 villages.<sup>17</sup> Nearly 87 percent of these villages have a population of less than 2000 people. This variation in population is important for the marketer while formulating marketing strategy and plans. The size of the village is an important consideration while deciding the geographic concentration of marketing efforts. In addition, product penetration, income levels, and availability of infrastructure like roads and electricity make the task of geographic segmentation important as well as complex. For most products, penetration levels in rural areas are lower than in urban areas. Penetration levels of products and services point towards the potential for increasing the ownership and consumption in rural areas. However, income and lifestyle issues influence the penetration rate of products and services. Availability of marketing infrastructure and the efforts needed to develop these in the rural India are the other issues that marketers face. *Haats* (or periodic village markets) and *mandis* (agricultural markets set up by government agencies to facilitate exchange of agricultural produce) serve important roles in the exchange of goods and services in rural areas. Products and packaging also need to be adapted to suit income levels, consumer familiarity, usage patterns, and consumption needs of the rural markets. Many companies have profited from adapting products and packages to suit rural consumers. Shampoos, detergents and several other fast moving consumer products are available in small-pack sizes to induce trial, and to suit the purchasing power of the rural consumers. Prioritization of rural markets and developing

**TABLE 8.1**

Major Segmentation Variables  
for Consumer Markets

<b>Geographic</b>	
Region	South India, Western Region, North, East
City	Class-I cities, class-II cities, metro cities, cities with a population of 0.5 million to 1 million, cities with a population of over 1 million
Rural and semi-urban areas	Rural villages with a population of over 10,000; semi-urban areas; small towns with a population between 20,000 and 50,000
<b>Demographic</b>	
Age	Under 6 years, 6–11, 12–19, 20–34, 35–49, 50–60, 60+
Family size	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child under 6 or over; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Low (up to Rs. 40,000 p.a.), lower middle (Rs 40,001–80,000 p.a.), middle (Rs. 80,001–1,20,000 p.a.) upper middle (Rs. 1,20,001–1,60,000) and high (above Rs. 1,60,000) (See Chapter 6.)
Occupation	Unskilled worker, skilled worker, petty traders, shop owners, businessman/industrialist, self-employed (professionals, clerical/salespersons, supervisory levels, officers/junior executives, middle/senior executives
Education	Illiterate, school up to 4 years, school between 5 and 9 years, SSC/HSC, nongraduate, graduate/postgraduate (general), graduate/postgraduate (professional)
Socio-Economic Classification (SEC)	A1, A2, B1, B2, C, D, E1, E2 (See Chapter 6 for details.)
<b>Psychographic</b>	
Lifestyle	Culture-oriented, sports-oriented, outdoor-oriented
Personality	Compulsive, gregarious, authoritarian, ambitious
<b>Behavioral</b>	
Occasions	Regular, special
Benefits	Quality, service, economy, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
Usage rate	Light, medium, heavy
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed, interested, desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

products at appropriate price points, developing a distribution infrastructure, and learning to communicate to the rural audiences determine the success of marketing efforts. Developing a deep understanding of rural consumers through research is therefore vital for marketers.

If we consider urban areas, 27 towns have a population of over 1 million, 42 towns have a population between 0.5 million and 1 million, and 354 towns have a population of 0.1 to 0.5 million. These class-I towns constitute about 8.4 percent of the total number of towns in India. In the *RK Swamy BBDO Guide to Urban Markets*, the market-potential value of towns was calculated based on five indicators such as the number of consumers, the means these consumers have, their consumption behavior, awareness levels, and the availability of marketing support infrastructure.<sup>18</sup> This report indicates that about 16 percent of towns (out of 784 towns with a population of over 50,000 people which account for 77 percent of the urban population) account for 80 percent of the market-potential value. Therefore, it is important to segment the urban markets and prioritize the geographic focus of marketing efforts.

It is important to address the issues relating to logistics to serve the diverse geographic market segments. Many companies in India use sophisticated models and software to plan physical distribution and to develop route plans for their sales people to efficiently serve wide geographic markets.

Geographic markets also vary in their product requirements. In arid regions of western India such as Rajasthan and Gujarat, during hot and dry summer seasons, air coolers (or desert coolers) are used. However, this product is ineffective in areas like Kerala or Goa where the climate is hot and humid during the summer. In such geographic areas, air conditioners are preferred. Likewise, food habits vary significantly across states and regions. For example, consumers in the southern state of Tamil Nadu show a preference for freshly brewed coffee whereas consumers in many other states of India tend to prefer tea. Even the taste and other quality parameters of tea vary across regions. Some parts of India have a distinctive preference for the strong tea from Assam whereas in some other parts, consumers prefer Nilgiri tea. In fact, this difference has prompted major tea-marketing companies to offer different blends of tea across regions based on consumer preference, yet under the same brand name. Differences in food preferences have important implications for marketers of packaged food. Brands like Aashirvad and MTR—marketers of ready-to-eat food products—need to assess the market preferences for the variety and taste of food items that they promote in different regions. Similar is the case with curry powder or pickles.

## Demographic Segmentation

In demographic segmentation, the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class. There are several reasons for the popularity of demographic variables to distinguish customer groups. One reason is that consumer needs, wants, and usage rates and product and brand preferences are often associated with demographic variables. Another is that demographic variables are easier to measure. Even when the target market is described in nondemographic terms (say, a personality type), the link back to demographic characteristics may be needed in order to estimate the size of the market and the media that should be used to reach it efficiently.

Here is how certain demographic variables have been used to segment markets.

**AGE AND LIFE-CYCLE STAGE** Consumer wants and abilities change with age. Therefore, age and life-cycle stage are important variables to define segments. Hindustan Lever introduced Pears soap in pink color, specifically targeted toward children. Johnson & Johnson's baby soap and baby talcum powder are classic examples of products for infants and children. The magazine *Magic Pot* published by the Malayala Manorama group is targeted at "nursery and primary school" children. This magazine has several features such as "joining the dots" or "finding a hidden animal by coloring the picture" that require some involvement of parents and adults. Another fortnightly magazine published from Mumbai, called JAM or *Just Another Magazine* is targeted at "young adults," defined as people below 24 years with a "metro mindset"—that is, those youngsters who enjoy music, Bollywood films, and other such lifestyle activities. Television channels in India indicate the segmentation based on age and life cycle. There are channels like Aastha and Sanskar essentially targeted toward the older generation; Cartoon Network, Disney, Hungama TV, and Nickelodeon are channels for children; and MTV and Channel V are for youngsters. Channels like Discovery and National Geographic are for people who are interested in nature, science, history, geography and similar subjects that help enhance their awareness and knowledge. Johnson & Johnson's "No Tears" shampoo was initially targeted at kids and children. However, the mildness of this shampoo appealed to mothers and adults for regular use, and hence the company positioned it as a mild, regular-use shampoo for adults.

**LIFE STAGE** Life stage defines a person's major concern such as getting married, deciding to buy a house, sending the child to the school, taking care of parents, children's marriage, planning for retirement, and so on. These life stages present opportunities for marketers who can help people cope with their major concerns. Insurance companies offer schemes for people who are planning their retirement life. Similarly, there are savings-cum-insurance schemes to help young parents plan for the education of their children.



A scooter specifically targeted at women. This segment is evolving rapidly in the urban areas of India.

**GENDER** Men and women tend to have different attitudinal and behavioral orientations, based partly on genetic makeup and partly on socialization. For example, women tend to be more communal-minded and men tend to be more self-expressive and goal-directed; women tend to take in more of the data in their immediate environment; men tend to focus on the part of the environment that helps them achieve a goal. A research study examining how men and women shop found that men often need to be invited to touch a product, while women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level.<sup>19</sup>

Gender differentiation has long been applied to product categories such as clothing, hair style, cosmetics, and magazines. Some products have been positioned as more masculine or feminine. Axe deodorant, for example, is positioned as a masculine product. Park Avenue, the brand of readymade apparel from Raymond is positioned as a masculine brand whereas its range of women's apparel is under the brand Be. Shopping behavior of men and women also vary. Men prefer to drive a motorcycle whereas there are specific brands of scooters targeted towards women. Bajaj Wave, for example, is a brand specifically designed for women.

In shopping behavior also, there tend to be differences between men and women. In some parts of India, women seldom shop and when they do, they buy goods mostly for the family.<sup>20</sup> One study suggests that about 48 percent of women buy skin-care items based on what they think will be best for the family, and this mode of buying holds for 51 percent of women for hair-wash products, 52 percent for freshening/deodorizing products such as talcum powder, 55 percent for personal-wash products such as toilet soap, and 60 percent for products like toothpaste or tooth powder.<sup>21</sup>

**INCOME** Income segmentation is a long-standing practice in a variety of products and services. Income determines the ability of consumers to participate in the market exchange and hence this is a basic segmentation variable. However, income does not always predict the best consumers for a given product. Even if two consumers have similar income levels, each may own different types and brands of products based on a host of factors such as lifestyle, attitudes, and values. Given the nature of income distribution in India (discussed in Chapter 3), opportunities exist for companies to serve the requirements of different income classes. Nirma washing powder, for example, was launched as the lowest-priced detergent in

India primarily targeted at the middle-income segment of the market. This helped in an explosive growth of the detergent market in the country. As a brand, Nirma has maintained its middle-class focus and "value for money" proposition. Markets for many consumer products in India are showing rapid growth due to low unit price packaging specifically targeted at consumers for whom affordability is a major criterion of product and brand choice. Detergents, shampoo, hair oil and a host of similar products are available in small sachets for one-time consumption and at low unit prices. This helps in overcoming income constraints of consumers, and encourages trials. Low unit price through appropriate packaging is one of the ways to reach out to a large mass of consumers in India who otherwise may not be able to participate in the market exchange.

Markets in India as well as in other emerging countries can develop only if the poorer sections of consumers participate in the market exchange and become consumers of products and services. Contrary to popular perception, targeting poorer consumers does not imply financial sacrifices and subsidy. Innovative ways to cater to the requirements of poorer consumers not only serves a social cause, but also generates income. An example of combining the social objective of serving the needs of the poor without compromising the financial viability is the case of Aravind Eye Care System, a group of institutions offering world-class eye care to the poor people in rural and urban India.<sup>22</sup>

### ARAVIND EYE HOSPITALS

Aravind Eye Hospitals (five hospitals located in Madurai and other towns of Tamil Nadu in South India) perform 190,000 eye surgeries every year. For 60 percent of the patients, the cost of eye care is free, and for the remaining 40 percent, the cost is charged at or below market rates. In order to provide low-cost surgeries for cataract treatment by insertion of intraocular lenses, the institution started a center for manufacturing synthetic lenses. The synthetic lenses cost about \$5 whereas the imported lenses cost about \$100. Today, this unit has become the largest producer of synthetic lenses in the world. This institution is able to provide low-cost eye care without sacrificing financial viability due to several innovations. On an average, each doctor performs about 2,600 surgeries whereas the national average is about 400. This high productivity was possible due to innovations in organization of workflow, from identification of patients to post-operative care. In addition, the excellent training imparted to its doctors, nurses and other paramedical staff contributes to high productivity. With a mission of "eliminating needless blindness," the Aravind Eye Care System has an outreach program to generate demand and perform on-the-spot screening in rural areas. It has a comprehensive program for checking vision and eye problems in young children, and also diabetes, which is a major contributing factor for impaired vision. It has also established vision centers that examine patients through a Web camera and send the pictures to the nearest hospital unit for diagnosis and prescription. It is actively involved in improving the capacities of other eye institutions through its training program. With the vision to create a world-class institution with a culture of dedication and genuine concern for poor patients, this institution is the largest eye-care system in the world today, giving the poor "the most precious gift" of eyesight.

**GENERATION** Each generation is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Demographers call these groups *cohorts*. Members of a cohort share the same major cultural, political, and economic experiences. They have similar outlooks and values. Marketers often advertise to a cohort group by using the icons and images prominent in their experiences.

Meredith, Schewe, and Karlovich developed a framework called The Lifestage Analytic Matrix, which combines information on cohorts, life stages, physiographics, emotional effects, and socioeconomics in analyzing a segment or individual. For example, two individuals from the same cohort may differ in their *life stages* (getting married, sending children to school), *physiographics* (coping with hair loss, arthritis, or osteoporosis), *emotional effects* (nostalgia about the past, wanting experiences instead of things), or *socio economics* (retiring from job, receiving provident fund and gratuity). The authors believe this analysis will lead to more efficient targeting and messages.

**SOCIAL CLASS** Social class has a strong influence on preference in cars, clothing, home furnishings, leisure activities, reading habits, and retailers. In India, the concept of social class is influenced by the caste system. This is a very unique system peculiar to India. The caste system prevalent in India sometimes transcends even the income level. As a consequence, market-segmentation schemes become a very complex process. This complexity of

the Indian market has prompted the development of "socioeconomic classification" or SEC as a viable method to segment markets. Consumption behavior in India is found to be influenced by socioeconomic factors governed by the person's education as well as occupation. A senior executive-level person with higher educational qualifications exhibits different purchase preferences and habits as compared to a person with similar income levels but different occupation and lower education levels. Details of the socioeconomic classification matrix are given in Chapter 6, Tables 6.1 and 6.2.

## Psychographic Segmentation

**Psychographics** is the science of using psychology and demographics to better understand consumers. In *psychographic segmentation*, buyers are divided into different groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles.

Values and lifestyles significantly affect the product and brand choices of consumers. Religion has significant influence on values and lifestyles. The strict norms that consumers follow with respect to food habits or even dress codes are representative examples in this regard. A significant number of consumers in India are strictly vegetarians. Even among those who consume nonvegetarian food, many avoid beef. McDonald's changed their menu in India to adapt to consumer preference. Beef was struck off the menu and the company introduced vegetarian burgers and other products based on the preference for vegetarian food. The market for wristwatches provides illustrations of segmentation based on lifestyle parameters. Titan watches have a wide range of sub-brands within their brand, such as Edge, Regalia, Nebula and Raga, to appeal to different lifestyle segments. Some of these models are ornate watches with gold-plated bracelets while some have leather straps. The brand Titan is prominently mentioned in these ranges. The company's range of watches under the Fastrack brand is for the youth. The company has another value-for-money brand, Sonata, targeted at people who want to own a good-looking watch at an affordable price. Instant noodle manufacturers of ready-to-eat, fast-to-cook food brands such as Maggi, Top Ramen and Aashirvad, who target time-constrained customers, are other examples of segmentation based on the lifestyle of consumers. Similarly, *Femina*, a women's magazine in English, is targeted at the "women of substance" or those with a broader world-view. Yet another example is Hidesign, the company that manufactures and markets high-end leather accessories such as travel bags, brief cases, and handbags. This brand is targeted at people who value "style and elegance in a classical sense," that is, those who want to make a personal statement of their style and the evolved nature of their preference.

One of the most popular commercially available classification systems based on psychographic measurements is SRI Consulting Business Intelligence's (SRIC-BI) VALS™ framework. The segmentation system is based on responses to a questionnaire featuring 4 demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year (see Figure 8.4).<sup>23</sup>

The major tendencies of the four groups with higher resources are:

1. **Innovators** – Successful, sophisticated, active, "take-charge" people with high self-esteem. Purchases often reflect cultivated tastes for relatively upscale, niche-oriented products and services.
2. **Thinkers** – Mature, satisfied, and reflective people who are motivated by ideals and value order, knowledge, and responsibility. Favor durability, functionality, and value in products.
3. **Achievers** – Successful goal-oriented people who focus on career and family. Favor premium products that demonstrate success to their peers.
4. **Experiencers** – Young, enthusiastic, impulsive people who seek variety and excitement. Spend a comparatively high proportion of income on fashion, entertainment, and socializing.

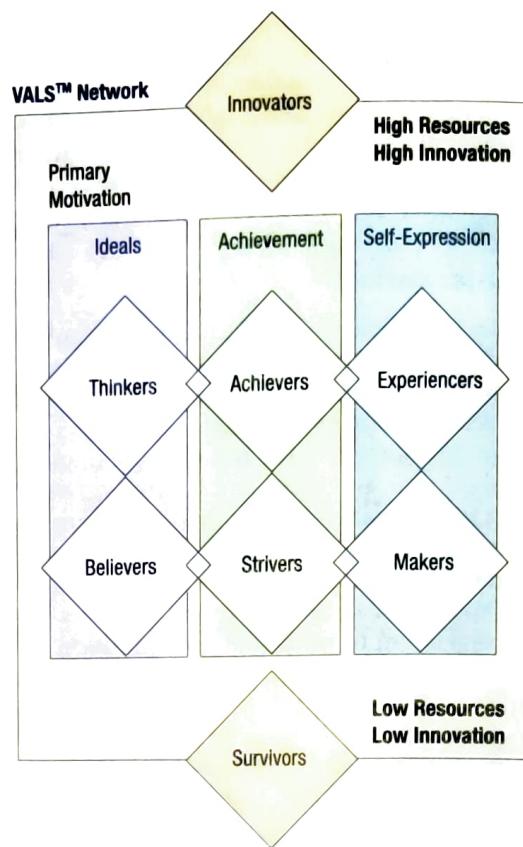
The major tendencies of the four groups with lower resources are:

1. **Believers** – Conservative, conventional, and traditional people with concrete beliefs. Favor familiar, products and are loyal to established brands.
2. **Strivers** – Trendy and fun-loving people who are resource-constrained. Favor stylish products that emulate the purchases of those with greater material wealth.
3. **Makers** – Practical, down-to-earth, self-sufficient people who like to work with their hands. Favor products with a practical or functional purpose.

FIG. 8.4

The VALS Segmentation System:  
An 8-Part Typology

Source: © 2004 by SRI Consulting Business Intelligence. All rights reserved. Printed by permission.



4. **Survivors** – Elderly, passive people who are concerned about change. Loyal to their favorite brands.

You can find out which VALS type you are by going to SRIC-BI's Web site ([www.sric-bi.com](http://www.sric-bi.com)).

Psychographic segmentation schemes are often customized by culture. The Japanese version of VALS, Japan VALS™, divides society into 10 consumer segments on the basis of two key consumer concepts: life orientation (traditional ways, occupations, innovation, and self-expression) and attitudes to social change (sustaining, pragmatic, adapting, and innovating).

## Behavioral Segmentation

In behavioral segmentation, buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product.

**DECISION ROLES** People play five roles in a buying decision: *Initiator*, *Influencer*, *Decider*, *Buyer*, and *User*. Recognition of the different buying roles, and specification of the people who play these roles for specific products and services, are vital for marketers. This is especially useful for designing the communication strategy. In pharmaceutical products, doctors prescribe medicines, pharmaceutical companies influence doctors' prescription behavior by providing technical information about the products, patients' relatives buy medicines, and the patient uses the product. Men choose their shaving equipments and women their cosmetics. However, the roles of mass media advertisements, salespeople, shopkeepers, friends, children, and relatives vary for different products. This is especially so with respect to products where the perceived risks of buying are high. Women, for example, play a significant influencing and deciding role when it comes to kitchen appliances.

**BEHAVIORAL VARIABLES** Many marketers believe that behavioral variables—occasions, benefits, user status, usage rate, loyalty status, buyer-readiness stage, and attitude—are the best starting points for constructing market segments.

**Occurrences** Occasions can be defined in terms of the time of day, week, month, year, or in terms of other well-defined temporal aspects of a consumer's life. Buyers can be distinguished according to the occasions when they develop a need, purchase a product, or use a



Role of women as major role players in buying decisions is depicted in this advertisement for kitchen appliances.

product. For example, air travel is triggered by occasions related to business, vacation, or family. Occasion segmentation can help firms expand product usage. Greeting card brands such as Archies and Hallmark make cards for different occasions such as birthdays, weddings, marriage anniversary, and Friendship Day. Amul's brand of chocolates are promoted as "a gift for someone you love". Occasion segmentation can help firms expand product usage. For example, biscuits are used as an accompaniment with tea or coffee. Parle's Monaco biscuits come with suggestions for toppings so that the biscuits can serve as snacks at parties or when guests come home.

**Benefits** Buyers can be classified according to the benefits they seek. Many product categories offer different products targeted at people who seek different set of benefits. Shampoos, for example, offer benefits such as basic cleaning of hair, conditioning, medicinal properties, and suitability for different types of hair. Brands such as Clinic, Chic, Pantene, Head & Shoulders, and Sunsilk offer different benefits. We can observe the application of benefit segmentation in the bathing-soap category as well. Lyrol, for example, offers the benefit of "freshness"; Cinthol offers the benefit of escape from body odor; and Dettol soap offers "total protection." Since benefits that consumers seek from the same product or service category vary, this segmentation approach is very useful in identifying market opportunities and deciding on the value proposition to offer.

**User Status** Markets can be segmented into nonusers, ex-users, potential users, first-time users, and regular users of a product. Each will require a different marketing strategy. Included in the potential user group are consumers who will become users in connection with some life stage or life event. Mothers-to-be are potential users who will turn into heavy users. Market-share leaders tend to focus on attracting potential users because they have the most to gain. Smaller firms focus on trying to attract current users away from the market leader.

**Usage Rate** Markets can be segmented into light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. In the mobile phone service provider market, heavy users account for a significant proportion of revenue earned by these providers. Therefore, heavy users are targeted by giving them special packages or offers to retain their patronage. Mobile service providers in India also offer low tariff targeted at the entry level and light users of mobile phones. While marketers would rather attract one heavy user than several light users, a potential problem, however, is that heavy users often either are extremely loyal to one brand or never stay loyal to a brand and are always looking for the lowest price.

**Buyer-Readiness Stage** A market consists of people in different stages of readiness to buy a product. Some are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. The relative numbers make a big difference in designing the marketing program. Suppose a health agency wants to encourage women to have an annual Pap test to detect possible cervical cancer. At the beginning, most women may be unaware of the Pap test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatize the benefits of the Pap test and the risks of not taking it. A special offer of a free health examination might motivate women to actually sign up for the test.

**Loyalty Status** Buyers can be divided into four groups according to brand loyalty status:

1. **Hard-core loyals** – Consumers who buy only one brand all the time.
2. **Split loyals** – Consumers who are loyal to two or three brands.
3. **Shifting loyals** – Consumers who shift loyalty from one brand to another.
4. **Switchers** – Consumers who show no loyalty to any brand.<sup>24</sup>

A company can learn a great deal by analyzing the degrees of brand loyalty: (1) By studying its hard-core loyals, the company can identify its products' strengths. (2) By studying its split loyals, the company can pinpoint which brands are most competitive with its own. (3) By looking at customers who are shifting away from its brand, the company can learn about its marketing weaknesses and attempt to correct them.

Companies selling in a market dominated by switchers may have to rely more on price-cutting. If mistreated, they can also turn on the company. One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the nonavailability of other brands.

In industries such as retailing and airlines, companies offer loyalty programs such as award points or mileage points and provide incentives like special discounts and gifts to retain customers. Loyalty programs tend to reduce customers' propensity to switch brands.

**Attitude** Five attitude groups can be found in a market: enthusiastic, positive, indifferent, negative, and hostile. Door-to-door workers in a political campaign use voter attitude to determine how much time to spend with that voter. They thank enthusiastic voters and remind them to vote; they reinforce those who are positively disposed; they try to win the votes of indifferent voters; they spend no time trying to change the attitudes of negative and hostile voters.

Combining different behavioral bases can help to provide a more comprehensive and cohesive view of a market and its segments. Figure 8.5 depicts one possible way to break down a target market by various behavioral segmentation bases.

**THE CONVERSION MODEL** The Conversion Model has been developed to measure the strength of the psychological commitment between brands and consumers and their openness to change.<sup>25</sup> To determine the ease with which a consumer can be converted to another choice, the model assesses commitment based on factors such as consumer attitudes toward and satisfaction with current brand choices in a category and the importance of the decision to select a brand in the category.<sup>26</sup>

The model segments *users* of a brand into four groups based on strength of commitment, from low to high, as follows:

1. Convertible (users who are most likely to defect).
2. Shallow (consumers who are uncommitted to the brand and could switch—some are actively considering alternatives).

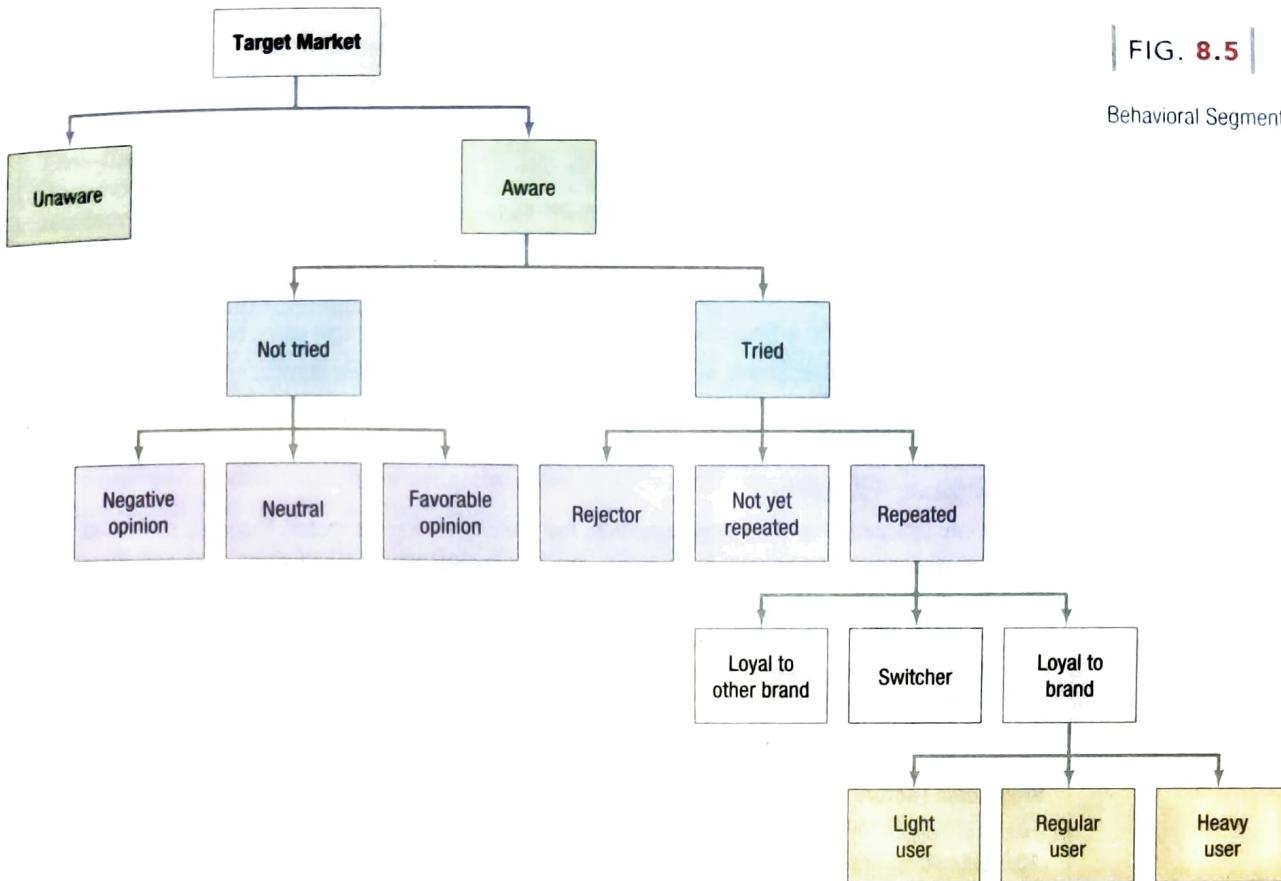


FIG. 8.5

Behavioral Segmentation Breakdown

3. Average (consumers who are also committed to the brand they are using, but not as strongly—they are unlikely to switch brands in the short term).
4. Entrenched (consumers who are strongly committed to the brand they are currently using—they are highly unlikely to switch brands in the foreseeable future).

The model also classifies *nonusers* of a brand into four other groups based on their “balance of disposition” and openness to trying the brand, from low to high, as follows:

1. Strongly Unavailable (nonusers who are unlikely to switch to the brand—their preference lies strongly with their current brands).
2. Weakly Unavailable (nonusers who are not available to the brand because their preference lies with their current brand, although not strongly).
3. Ambivalent (nonusers who are as attracted to the brand as they are to their current brands).
4. Available (nonusers of the brand who are most likely to be acquired in the short run).

By understanding the level of commitment of customers, companies can take actions to attract and retain high-value committed customers. This can result in increased profitability.

### ::: Bases for Segmenting Business Markets

Business markets can be segmented with some of the same variables used in consumer market segmentation, such as geography, benefits sought, and usage rate, but business marketers also use other variables. Bonoma and Shapiro proposed segmenting the business market with the variables shown in Table 8.2. The demographic variables are the most important, followed by the operating variables—down to the personal characteristics of the buyer.

The table lists major questions that business marketers should ask in determining which segments and customers to serve. A rubber-tire company should first decide which industries it wants to serve. It can sell tires to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. Within a chosen target industry, a company can further segment

TABLE 8.2

Major Segmentation Variables  
for Business Markets

<b>Demographic</b>
1. <i>Industry</i> : Which industries should we serve?
2. <i>Company size</i> : What size companies should we serve?
3. <i>Location</i> : What geographical areas should we serve?
<b>Operating Variables</b>
4. <i>Technology</i> : What customer technologies should we focus on?
5. <i>User or nonuser status</i> : Should we serve heavy users, medium users, light users, or nonusers?
6. <i>Customer capabilities</i> : Should we serve customers needing many or few services?
<b>Purchasing Approaches</b>
7. <i>Purchasing-function organization</i> : Should we serve companies with highly centralized or decentralized purchasing organizations?
8. <i>Power structure</i> : Should we serve companies that are engineering dominated, financially dominated, and so on?
9. <i>Nature of existing relationships</i> : Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
10. <i>General purchase policies</i> : Should we serve companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding?
11. <i>Purchasing criteria</i> : Should we serve companies that are seeking quality? Service? Price?
<b>Situational Factors</b>
12. <i>Urgency</i> : Should we serve companies that need quick and sudden delivery or service?
13. <i>Specific application</i> : Should we focus on certain applications of our product rather than all applications?
14. <i>Size of order</i> : Should we focus on large or small orders?
<b>Personal Characteristics</b>
15. <i>Buyer-seller similarity</i> : Should we serve companies whose people and values are similar to ours?
16. <i>Attitudes toward risk</i> : Should we serve risk-taking or risk-avoiding customers?
17. <i>Loyalty</i> : Should we serve companies that show high loyalty to their suppliers?

Source: Adapted from Thomas V. Bonoma and Benson P. Shapiro, *Segmenting the Industrial Market* (Lexington, MA: Lexington Books, 1983).

by company size. The company might set up separate operations for selling to large and small customers. Consider how Dell is organized.

## DELL

Dell is divided into two direct sales divisions: One sells to consumers and small businesses; another manages the company's corporate accounts. Three key segments are included under the corporate accounts umbrella: the enterprise group (*Fortune* 500 companies), large corporate accounts (multinational companies in what would be the *Fortune* 501 to 2000 range), and preferred accounts (medium businesses with 200 to 2,000 employees).

## Sequential Segmentation

Business marketers generally identify segments through a sequential process. Consider an aluminum company: The company first undertook macrosegmentation. It looked at which end-use market to serve: automobile, residential, or beverage containers. It chose the residential market, and needed to determine the most attractive product application: semifinished material, building components, or aluminum mobile homes. Deciding to focus on building components, it considered the best customer size and chose large customers. The second stage consisted of microsegmentation. The company distinguished among

customers buying on price, service, or quality. Because the aluminum company had a high-service profile, it decided to concentrate on the service-motivated segment of the market.

Business buyers seek different benefit bundles based on their stage in the purchase decision process:<sup>27</sup>

1. **First-time prospects** – Customers who have not yet purchased but want to buy from a vendor who understands their business, who explains things well, and whom they can trust.
2. **Novices** – Customers who are starting their purchasing relationship want easy-to-read manuals, hot lines, a high level of training, and knowledgeable sales reps.
3. **Sophisticates** – Established customers want speed in maintenance and repair, product customization, and high technical support.

These segments may also have different channel preferences. First-time prospects would prefer to deal with a company salesperson instead of a catalog or direct-mail channel, because the latter provides too little information. Sophisticates, on the other hand, may want to conduct more of their buying over electronic channels.

One proposed segmentation scheme classifies business buyers into three groups, each warranting a different type of selling:<sup>28</sup>

- **Price-oriented customers (transactional selling)**. They want value through lowest price.
- **Solution-oriented customers (consultative selling)**. They want value through more benefits and advice.
- **Strategic-value customers (enterprise selling)**. They want value through the supplier co-investing and participating in the customer's business.

The authors cite several cases of mismanagement by companies that did not understand the business buyer:

- A consulting firm replaced its long-term consultants with salespeople to sell quick consulting projects. They acquired many new clients but lost most of their old clients, who wanted consultative selling.
- A container manufacturer selling consultatively to a major food company was asked to join in some risk and gain sharing involving co-development of radically new packaging approaches. It refused and lost the account.

## ::: Market Targeting

Once the firm has identified its market-segment opportunities, it has to decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults, but within that group distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a *needs-based market segmentation approach*. Roger Best proposed the seven-step approach shown in Table 8.3.

### Effective Segmentation Criteria

Not all types of segmentation are useful. It is important to recognize that a marketer needs to use relevant variables to segment a market. For example, segmenting a market based on a person's age is not relevant for a product like salt. Instead, the lifestyle and usage habits may be more relevant for segmenting its market. Some consumers may look for "free flowing" property of salt. Others may prefer table salt fortified with iodine. (In India, it is mandatory to sell salt fortified with iodine as a prevention from goiter, a disease affecting the thyroid gland due to iodine deficiency.) People who suffer from high blood pressure may prefer "health" salt that contains lesser quantity of sodium chloride.

To be useful, market segments must rate favorably on five key criteria:

- **Measurable.** The size, purchasing power, and characteristics of the segments can be measured.
- **Substantial.** The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for people who are under four feet tall.

| TABLE 8.3 |

Steps in the Segmentation Process

	<b>Description</b>
1. Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customer in solving a particular consumption problem.
2. Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).
3. Segment Attractiveness	Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.
4. Segment Profitability	Determine segment profitability.
5. Segment Positioning	For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristics.
6. Segment "Acid Test"	Create "segment storyboards" to test the attractiveness of each segment's positioning strategy.
7. Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, and place.

Source: Adapted from Robert J. Best. *Market-Based Management* (Upper Saddle River, NJ: Prentice Hall, 2000)

- **Accessible.** The segments can be effectively reached and served.
- **Differentiable.** The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and unmarried women respond similarly to a sale on perfume, they do not constitute separate segments.
- **Actionable.** Effective programs can be formulated for attracting and serving the segments.

## Evaluating and Selecting the Market Segments

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

After evaluating different segments, the company can consider five patterns of target market selection, shown in Figure 8.6.

**SINGLE-SEGMENT CONCENTRATION** The farm-equipment division of Mahindra & Mahindra concentrates on tractors primarily targeted at agricultural markets. The Zodiac brand concentrates on formal shirts for executives and professionals. Specialty hospitals focus on specific therapeutic areas such as cancer care, heart care, neonatal care, and gynecology. Through concentrated marketing, the firm gains a strong knowledge of the segment's needs and achieves a strong market presence. Furthermore, the firm enjoys operating economies through specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

However, there are risks. A particular market segment can turn sour or a competitor may invade the segment: When digital camera technology took off, Polaroid's earnings fell sharply. For these reasons, many companies prefer to operate in more than one segment. If selecting more than one segment to serve, a company should pay close attention to segment interrelationships on the cost, performance, and technology side. A company carrying fixed costs (sales force, store outlets) can add products to absorb and share some costs. The sales force will sell additional products, and a fast-food outlet will offer additional menu items. Economies of scope can be just as important as economies of scale.

Companies can try to operate in supersegments rather than in isolated segments. A **supersegment** is a set of segments sharing some exploitable similarity. For example, many symphony orchestras target people who have broad cultural interests, rather than only those who regularly attend concerts.

**SELECTIVE SPECIALIZATION** A firm selects a number of segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. This multisegment strategy has the advantage of diversifying the firm's risk.

**PRODUCT SPECIALIZATION** The firm makes a certain product that it sells to several different market segments. An example would be a microscope manufacturer who sells to university, government, and commercial laboratories. The firm makes different microscopes for the different customer groups and builds a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology.

**MARKET SPECIALIZATION** The firm concentrates on serving many needs of a particular customer group. An example would be a firm that sells an assortment of products only to university laboratories. The firm gains a strong reputation in serving this customer group and becomes a channel for additional products the customer group can use. The downside risk is that the customer group may suffer budget cuts or shrink in size.

**FULL MARKET COVERAGE** The firm attempts to serve all customer groups with all the products they might need. Only very large firms such as IBM (computer market), General Motors (vehicle market), and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy. Large firms can cover a whole market in two broad ways: through undifferentiated marketing or differentiated marketing.

In *undifferentiated marketing*, the firm ignores segment differences and goes after the whole market with one offer. It designs a product and a marketing program that will appeal to the broadest number of buyers. It relies on mass distribution and advertising. It aims to endow the product with a superior image. Undifferentiated marketing is "the marketing counterpart to standardization and mass production in manufacturing."<sup>29</sup> The narrow product line keeps down costs of research and development, production, inventory, transportation, marketing research, advertising, and product management. The undifferentiated advertising program keeps down advertising costs. Presumably, the company can turn its lower costs into lower prices to win the price-sensitive segment of the market.

In *differentiated marketing*, the firm operates in several market segments and designs different products for each segment. Cosmetics firm Estée Lauder markets brands that appeal to women (and men) of different tastes: The flagship brand, the original Estée Lauder, appeals to older consumers; Clinique caters to middle-aged women; M.A.C. to youthful hipsters; Aveda to aromatherapy enthusiasts; and Origins to ecoconscious consumers who want cosmetics made from natural ingredients.<sup>30</sup> Maruti Suzuki, the largest car manufacturing company in India, offers a variety of models, brands and variants to cater to a diverse set of consumers. Through brands such as Maruti 800, Omni, Gypsy, Alto, Zen, WagonR, Swift, Esteem, and Baleno, the company offers a wide variety of cars appealing to the consumer preferences of different market segments.

**MANAGING MULTIPLE SEGMENTS** The best way to manage multiple segments is to appoint segment managers with sufficient authority and responsibility for building the segment's business. At the same time, segment managers should not be so focused as to resist cooperating with other groups in the company. Consider the following situation.

### BAXTER

Baxter operates several divisions selling different products and services to hospitals. Each division sends out its own invoices. Some hospitals complain about receiving as many as seven different Baxter invoices each month. Baxter's marketers finally convinced the separate divisions to send the invoices to headquarters so that Baxter could send one invoice a month to its customers.

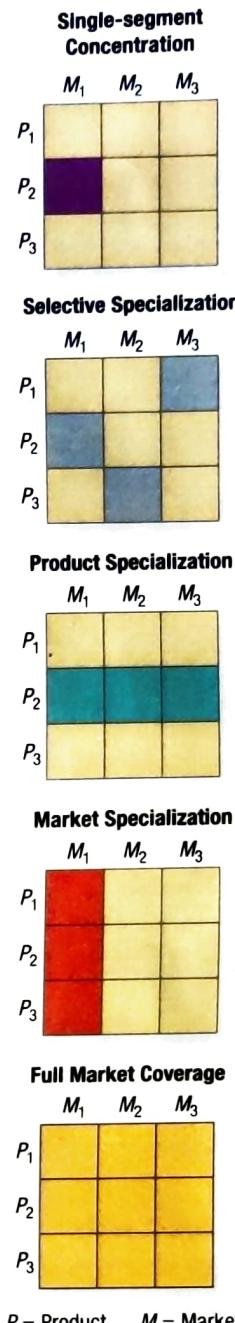


FIG. 8.6

Five Patterns of Target Market Selection

Source: Adapted from Derek F. Abell, *Defining the Business: The Starting Point of Strategic Planning* (Upper Saddle River, NJ: Prentice Hall, 1980), ch. 8, pp. 192–196.

**DIFFERENTIATED MARKETING COSTS** Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. The following costs are likely to be higher:

- **Product modification costs.** Modifying a product to meet different market-segment requirements usually involves R&D, engineering, and special tooling costs.
- **Manufacturing costs.** It is usually more expensive to produce 10 units of 10 different products than 100 units of one product. The longer the production setup time and the smaller the sales volume of each product, the more expensive the product becomes. However, if each model is sold in sufficiently large volume, the higher setup costs may be quite small per unit.
- **Administrative costs.** The company has to develop separate marketing plans for each market segment. This requires extra marketing research, forecasting, sales analysis, promotion, planning, and channel management.
- **Inventory costs.** It is more costly to manage inventories containing many products.
- **Promotion costs.** The company has to reach different market segments with different promotion programs. The result is increased promotion-planning costs and media costs.

Because differentiated marketing leads to both higher sales and higher costs, nothing general can be said regarding the profitability of this strategy. Companies should be cautious about oversegmenting their markets. If this happens, they may want to turn to *countersegmentation* to broaden the customer base. For example, Johnson & Johnson broadened its target market for its baby shampoo to include adults. Smith Kline Beecham launched its Aquafresh toothpaste to attract three benefit segments simultaneously: those seeking fresh breath, whiter teeth, and cavity protection.

## Additional Considerations

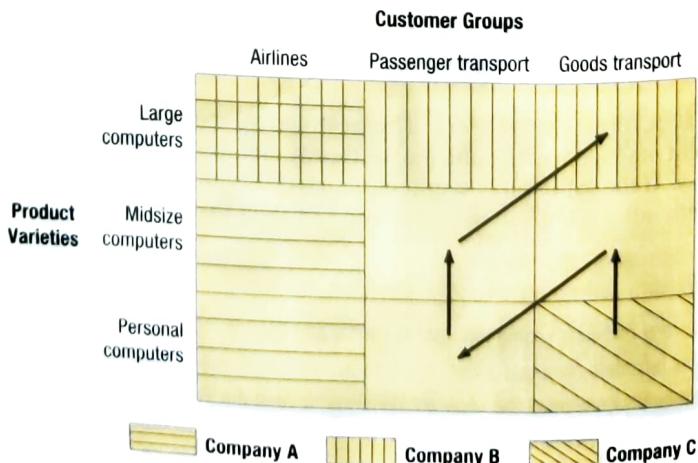
Three other considerations must be taken into account in evaluating and selecting segments: segment-by-segment invasion plans, updating segmentation schemes, and ethical choice of market targets.

**SEGMENT-BY-SEGMENT INVASION PLANS** A company would be wise to enter one segment at a time. Competitors must not know to what segment(s) the firm will move next. Segment-by-segment invasion plans are illustrated in Figure 8.7. Three firms, A, B, and C, have specialized in adapting computer systems to the needs of airlines, passenger transport, and goods transport companies. Company A meets all the computer needs of airlines. Company B sells large computer systems to all three transportation sectors. Company C sells personal computers to goods transport companies.

Where should company C move next? Arrows have been added to the chart to show the planned sequence of segment invasions. Company C will next offer midsize computers to goods transport companies. Then, to allay company B's concern about losing some large computer business with goods transport companies, C's next move will be to sell personal computers to passenger transport companies. Later, C will offer midsize computers to

FIG. 8.7

Segment-by-Segment Invasion Plan



them. Finally, it may launch a full-scale attack on company B's large computer position in goods transport companies. Of course, C's hidden planned moves are provisional in that much depends on competitors' segment moves and responses.

Unfortunately, too many companies fail to develop a long-term invasion plan. PepsiCo is an exception. It first attacked Coca-Cola in the grocery market, then in the vending-machine market, then in the fast-food market, and so on. Japanese firms also plot their invasion sequence. They first gain a foothold in a market, then enter new segments with products. Toyota began by introducing small cars (Tercel, Corolla), then expanded into midsize cars (Camry, Avalon), and finally into luxury cars (Lexus).

A company's invasion plans can be thwarted when it confronts blocked markets. The invader must then figure out a way to break in. The problem of entering blocked markets calls for a megamarketing approach. **Megamarketing** is the strategic coordination of economic, psychological, political, and public relations skills, to gain the cooperation of a number of parties in order to enter or operate in a given market. Pepsi used megamarketing to enter the Indian market.

#### PEPSICO

After Coca-Cola left India, Pepsi worked with an Indian business group to gain government approval for its entry, over the objections of domestic soft drink companies and anti-multinational legislators. Pepsi offered to help India export some agricultural products in a volume that would more than cover the cost of importing soft-drink concentrate. Pepsi also promised to help rural areas in their economic development. It further offered to transfer food-processing, packaging, and water-treatment technology to India. Pepsi's bundle of benefits won the support of various Indian interest groups.

Once in, a multinational must be on its best behavior. This calls for well-thought-out *civic positioning*.

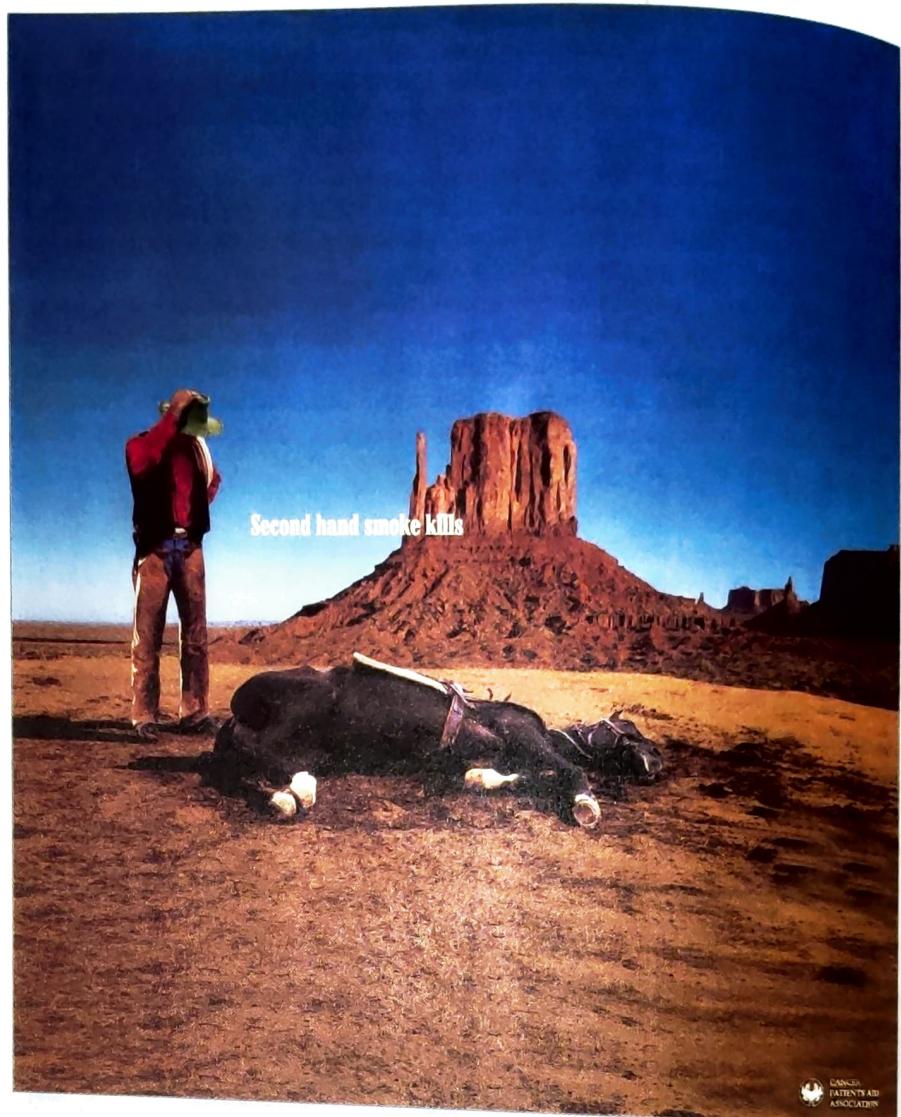
#### HEWLETT-PACKARD

Hewlett-Packard positions itself as a company implementing "e-inclusion"—the attempt to help bring the benefits of technology to the poor. Toward that end, HP has begun a three-year project designed to create jobs, improve education, and provide better access to government services at Kuppam constituency in Andhra Pradesh. Working with the local government, as well as a branch of HP Labs based in India, the company is helping to provide the rural poor with access to government records, schools, health information, crop prices, and so forth. Its hope is to stimulate small, tech-based businesses. Not only does this build goodwill and the HP brand in India, but it will also help the company discover new, profitable lines of business.<sup>31</sup>



A Pepsi ad from India. To enter the Indian market, Pepsi used megamarketing. With the aid of an Indian business group, it offered a package of benefits that gained its acceptance.

Socially responsible marketing:  
An anti-smoking advertisement to reduce  
the demand for socially harmful  
products.



CANCER  
PACIFIC AREA  
FOUNDATION

**UPDATING SEGMENTATION SCHEMES** Market segmentation analysis must be done periodically because segments change. At one time the personal computer industry segmented its products purely on speed and power. Later, PC marketers recognized an emerging "Soho" market, named for "small office and home office." Mail-order companies such as Dell and Gateway appealed to this market's requirement for high performance coupled with low price and user-friendliness. Shortly thereafter, PC makers began to see Soho as comprised of smaller segments. "Small-office needs might be very different from home-office needs," says one Dell executive.<sup>32</sup>

One way to discover new segments is to investigate the hierarchy of attributes consumers examine in choosing a brand if they use phased decision strategies. This process is called **market partitioning**. Years ago, most car buyers in the U.S. first decided on the manufacturer and then on one of its car divisions (*brand-dominant hierarchy*). A buyer might favor General Motors cars and, within this set, Pontiac. Today, many buyers decide first on the nation from which they want to buy a car (*nation-dominant hierarchy*). Buyers may first decide they want to buy a Japanese car, then Toyota, and then the Corolla model of Toyota. Companies must monitor potential shifts in consumers' hierarchy of attributes and adjust to changing priorities.

The hierarchy of attributes can reveal customer segments. Buyers who first decide on price are price dominant; those who first decide on the type of car (e.g., sports, passenger, station wagon) are type dominant; those who first decide on the car brand are brand dominant. Those who are type/price/brand dominant make up a segment; those who are quality/service/type dominant make up another segment. Each segment may have distinct demographics, psychographics, and mediographics.<sup>33</sup>

**ETHICAL CHOICE OF MARKET TARGETS** Market targeting sometimes generates public controversy.<sup>34</sup> The public is concerned when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (poor people), or promote potentially harmful products. The cereal industry has been heavily criticized for marketing efforts directed toward children. Critics worry that high-powered appeals presented through the mouths of lovable animated characters will overwhelm children's defenses and lead them to want sugared cereals or poorly balanced breakfasts. Toy marketers have been similarly criticized. McDonald's and other chains have drawn criticism for pitching their high-fat, salt-laden fare to low-income, inner-city residents. In India, reputed soft drink brands faced a crisis in August 2003 when a Delhi-based public interest research institution, the Centre for Science and Environment (CSE), alleged that about a dozen such brands, including Coca-Cola and Pepsi, contained dangerously high levels of pesticides and insecticides.

Socially responsible marketing calls for targeting that serves not only the company's interests, but also the interests of those targeted.

## SUMMARY :::

1. Target marketing involves three activities: market segmentation, market targeting, and market positioning.
2. Markets can be targeted at four levels: segments, niches, local areas, and individuals. Market segments are large, identifiable groups within a market. A niche is a more narrowly defined group. Marketers appeal to local markets through grassroots marketing for trading areas, neighborhoods, and even individual stores.
3. More companies now practice individual and mass customization. The future is likely to see more self-marketing, a form of marketing in which individual consumers take the initiative in designing products and brands.
4. There are two bases for segmenting consumer markets: consumer characteristics and consumer responses. The major segmentation variables for consumer markets are geographic, demographic, psychographic, and behavioral. These variables can be used singly or in combination.
5. Business marketers use all these variables along with operating variables, purchasing approaches, and situational factors.
6. To be useful, market segments must be measurable, substantial, accessible, differentiable, and actionable.
7. A firm has to evaluate the various segments and decide how many and which ones to target: a single segment, several segments, a specific product, a specific market, or the full market. If it serves the full market, it must choose between differentiated and undifferentiated marketing. Firms must also monitor segment relationships, and seek economies of scope and the potential for marketing to supersegments. They should develop segment-by-segment invasion plans.
8. Marketers must choose target markets in a socially responsible manner.

## APPLICATIONS :::

### Marketing Debate Is Mass Marketing Dead?

With marketers increasingly adopting more and more refined market segmentation schemes—fueled by the Internet and other customization efforts—some critics claim that mass marketing is dead. Others counter that there will always be

room for large brands that employ marketing programs targeting the mass market.

**Take a position:** Mass marketing is dead versus Mass marketing is still a viable way to build a profitable brand.

### Marketing Discussion

**Descriptive versus Behavioral Market Segmentation Schemes**  
Think of various product categories. How would you classify yourself in terms of the various segmentation schemes? How would marketing be more or less effective for you depending

on the segment involved? How would you contrast demographic versus behavioral segment schemes? Which ones do you think would be most effective for marketers trying to sell to you?