

Bases for Segmenting Consumer Markets

Market segmentation divides a market into well-defined slices. A *market segment* consists of customers who share a similar set of needs and wants. The marketer's task is to identify the appropriate number and nature of market segments and decide which one(s) to target. We use two broad groups of variables to segment consumer markets. Some researchers try to define segments by looking at descriptive characteristics: geographic, demographic, and psychographic. Then they examine whether these customer segments exhibit different needs and product responses. For example, they might examine the differing attitudes of people belonging to various classes under the Socio-Economic Classification toward, say, "safety" as a product benefit, consumer responses to benefits, usage occasions, or brands. The researcher then sees whether different characteristics are associated with each consumer-response segment. For example, do people who want "quality" rather than "low price" in an automobile differ in their geographic, demographic, and psychographic makeup?

Regardless of which type of segmentation scheme we use, the key is adjusting the marketing program to recognize customer differences. The major segmentation variables—geographic, demographic, psychographic, and behavioral segmentation—are summarized in Table 7.1.

Geographic Segmentation

Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores. In a growing trend called *grassroots marketing*, such activities concentrate on getting as close and personally relevant to individual customers as possible.

Many banks in India have "specialized" branches that are dedicated to serve corporate or organizational customers and high-net-worth individuals. The services in such branches are customized to serve the needs of these target segments. Banks have dedicated "relationship executives" who attend to the requirements of these customers. Some banks provide valet parking facilities and special services to their high-net-worth customers. Similarly, there are "in-city" courier companies in many cities in India that specialize in delivering mail and packets on the same day within a specified geographical area, usually within the city.

There are discernable differences in consumer preferences, purchase patterns, and behaviors across different geographical regions in South Asia. The size and market attractiveness of different geographical markets are important considerations while deciding on marketing efforts, so geographical segmentation is vital to marketers. There are alternative frameworks and data guides to assess the market potential of different geographical regions. In India, a comprehensive report titled *RK SWAMY BBDO Guide to Market Planning* provides the market potential or purchasing power value of urban and rural areas based on data from 515 districts in 21 states and 3 union territories. These indices are developed on the basis of 24 parameters that address four basic issues: (1) means and ability to purchase or consume, (2) consumption patterns, (3) exposure to mass media and awareness levels, and (4) extent of marketing support infrastructure.² Similarly, Madison Media, part of Madison Communications, has devised the Town & Country Framework to help marketers prioritize markets and choose suitable advertising media for the selected market. This framework suggests a set of indicators that are combined with data available in the National Readership Surveys to classify geographical markets into sociocultural regions (SCRs) as the basic unit for analysis.³ Based on analyses and classification of data, each region is evaluated and ranked on social, cultural, and economic factors and media reach. The patterns observed in these reports suggest the need to prioritize geographical markets to focus marketing efforts as a lower proportion of geographical markets accounts for a larger proportion of consumption potential.

Geographical markets also vary in their product preferences and requirements. In arid regions of South Asian countries, during the hot and dry summer season, air coolers (or desert coolers) are used. However, this product is ineffective in some regions, particularly coastal areas where the climate is hot and humid during summer. Similarly, food habits vary significantly across states and

| Major Segmentation Variables for Consumer Markets | |
|---|---|
| Geographic | |
| Region | South, West, North, East |
| City | Class-I cities, class-II cities, metros, 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 |
| Demographic | |
| Age | Under 6 years, 6–11 years, 12–19 years, 20–34 years, 35–49 years, 50–60 years, 60+ years |
| 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 ₹ 40,000 p.a.), lower middle (₹ 40,001–80,000 p.a.), middle (₹ 80,001–120,000 p.a.), upper middle (₹ 120,001–160,000 p.a.), and high (above ₹ 160,000 p.a.) |
| Occupation | Unskilled workers, skilled workers, petty traders, shop owners, businessmen/industrialists, 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 |
| Psychographic | |
| Lifestyle | Culture-oriented, sports-oriented, outdoor-oriented |
| Personality | Compulsive, gregarious, authoritarian, ambitious |
| Behavioral | |
| Occurrences | 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 |

regions. For example, consumers in a southern state like Tamil Nadu prefer freshly brewed coffee while consumers in many other states in India prefer tea. Even the taste and other quality parameters of tea vary across regions—some parts of India have a distinctive preference for strong tea from the Assam region whereas consumers in other parts of India prefer Darjeeling or Nilgiri tea. In fact, this difference has prompted major tea-marketing companies to offer different blends of tea under the same brand name in different regions based on consumer preference. In the ready-to-eat packaged food market, brands like Ashirvaad and MTR assess the taste and flavor preferences for the food items they promote in different regions. The same is the case with curry powders or pickles. In addition to product-related decisions, geographical segmentation is also an important consideration in designing the physical distribution and logistics operations. Many companies in South Asia use sophisticated models and software to plan their physical distribution.

SEGMENTING RURAL MARKETS Geographical segmentation of markets into *urban* and *rural* is especially important in South Asian countries as rural and urban markets in this region differ on a variety of important parameters. “Marketing Insight: Segmenting Rural Markets” under the section on Socio-Economic Classification discusses the segmentation of rural markets in greater detail.

Demographic Segmentation

In demographic segmentation, we divide the market on variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class. One reason demographic variables are so popular with marketers is that they're often associated with consumer needs and wants. Another is that they're easy to measure. Even when we describe the target market in nondemographic terms (say, by personality type), we may need the link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently.

Here's how marketers have used certain demographic variables to segment markets.

AGE AND LIFE-CYCLE STAGE Consumer wants and abilities change with age. Many products, such as toys, books, magazines, digital games, candies, chocolates, biscuits, fruit juices, and packaged foods, are specifically targeted at children and younger people. Youngsters are active in social networking. They consume Maggi noodles, Lay's potato chips, Kurkure, and aerated drinks; passionately play digital games; and browse the Internet very often. The Walt Disney Company's (India) Disney, Jetix, and Hungama channels are targeted at children. Channels such as Aastha and Sanskar, on the other hand, focus on a spiritually inclined older audience, and channels like Discovery and National Geographic target people who are interested in education and entertainment. Clearasil cream has been positioned as an acne treatment for adolescents. Glucose-D is targeted at youngsters and sports enthusiasts. Many jewelry retailers have introduced gold jewelry specifically for children. Titan watches re-entered the children's watch market with the introduction of the brand Zoop.

gets 6–14
by using
that reflect the
target segment.



Titan Zoop Titan's first entry into the children's watch category in India was through the brand Dash, targeted at children in the age group of 6–14. However, this brand was withdrawn because it was felt that the timing was premature as parents were not ready to spend on kids' accessories at that time. Subsequently, realizing the potential of this segment, Titan re-entered the market under a new brand name—Zoop. The design elements of these watches reflect the preferences of the target segment. Watches for girls feature a range of candy colors and summer flowers whereas watches for boys feature nautical colors and sail elements. To remain contemporary and to keep pace with new trends, the company launched a limited edition of watches depicting popular characters of Walt Disney Pictures' *Toy Story*. The color scheme for the straps and the dials resonates the vibrant and bold colors of the characters. Each watch has a story to tell, which helps in connecting with the target segment. In order to create promotional excitement, the company launched a scheme that includes a pack of goofy bands on the purchase of any Zoop watch. These bands can be worn as bracelets, which have become very popular among children. The advertisement campaigns for Zoop were based on the theme that today's children want to own watches that reflect their personality and gain the attention of their peer groups. The "Be a Star" advertisement campaign was aired on television channels targeted at children and some of the general entertainment channels. The brand is available in a wide range of retail points, including Titan's exclusive showrooms, large-format shops, and multibrand shops.⁴

LIFE STAGE People in the same part of the life cycle may differ in their life stage. *Life stage* defines a person's major concern, such as getting married, deciding to buy a home, sending a child to school, taking care of older parents, marrying off his or her child,

planning for retirement, and so on. These life stages present opportunities for marketers who can help people cope with their major concerns. When a person gets married and starts a family, a host of products and services such as furniture, kitchen appliances, and cooking gadgets are needed. Many marketers target customers who are at this life stage by developing appropriate sales promotion schemes and advertisements. Similarly, there are savings-cum-insurance schemes to help young parents to plan for the education of their children. Insurance companies offer schemes for people who are planning for life after retirement. Many banks in South Asia offer service products for retired people, and the interest rates on deposits are higher for "senior citizens" (people above 60 years).



iBall Aasaan While most cell phone brands focus on young consumers and introduce products with technology and features important to this target group, one company in India has introduced a handset specifically targeted at senior citizens under the brand name iBall Aasaan (aasaan means "easy" in Hindi). This handset has several features that are important and useful to the target segment. It has a "talking" keyboard with large buttons, and the display screen has bigger fonts. The phone has a bright LED torch with a dedicated button, a special indicator for incoming calls, and alerts for missed calls and low battery charge. One of the important features of this phone is an emergency SOS button which, when switched on, automatically dials five numbers, signaling that the caller is in need of urgent attention. The phone has many other standard features, and the battery charger functions as a phone stand as well. The features of the phone make it compatible with the needs of senior citizens.

The Perfect gift for your elders!

Presenting Senior mobile phones by iBall.

- Large keypad with large buttons and fonts
- Enhanced audio function
- Fluorescent backlight for easy readability
- Senior-friendly usage
- One touch Wireless FM
- Bright LED torch

iBall

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Emergency SOS Button
Siren to alert nearby, 5 SMS to predefined numbers
& Sequential calls till call answered!

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Old is Bold

SENIOR SHAAN ISLEEP I POSH I TOUCH I FLIP I WATERPROOF

GENDER Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization.⁵ Women tend to be more communal-minded and men more self-expressive and goal-directed; women tend to take in more of the data in their immediate environment and men 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, whereas 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.⁶

Differentiation based on gender has long been applied to product categories such as clothing, hairstyling, cosmetics, fashion accessories, and magazines. Some brands have been positioned as more masculine or feminine. Park Avenue, the brand of readymade apparel from Raymond, is positioned as a masculine brand. Motorcycles are considered to be for men, but many other two-wheeler brands such as Bajaj Wave, Kinetic Flyte, Honda Activa, and TVS Scooty are targeted at women. TVS Motors and Mahindra have launched scooters under the brands Wego and Rodeo, respectively, targeted at not just men, but also women. Van Heusen and Allen Solly, which were primarily men's clothing brands, have launched a range of apparel for women. On the other hand, Emami, a company that traditionally focused on women, has targeted a new fairness cream, Fair and Handsome, at men, and in the process created a new product category.

Men and women vary in their shopping behavior as well. In South Asia, women play an important role in buying food, groceries, and products for daily household use. A study indicates that in some parts of India, women seldom shop and when they do, they buy goods mostly for the family. This study suggests that about 48 percent of women buy products based on what they think is 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 like talcum powder, 55 percent for personal wash products like toilet soap, and 60 percent for products like toothpaste or tooth powder.⁷

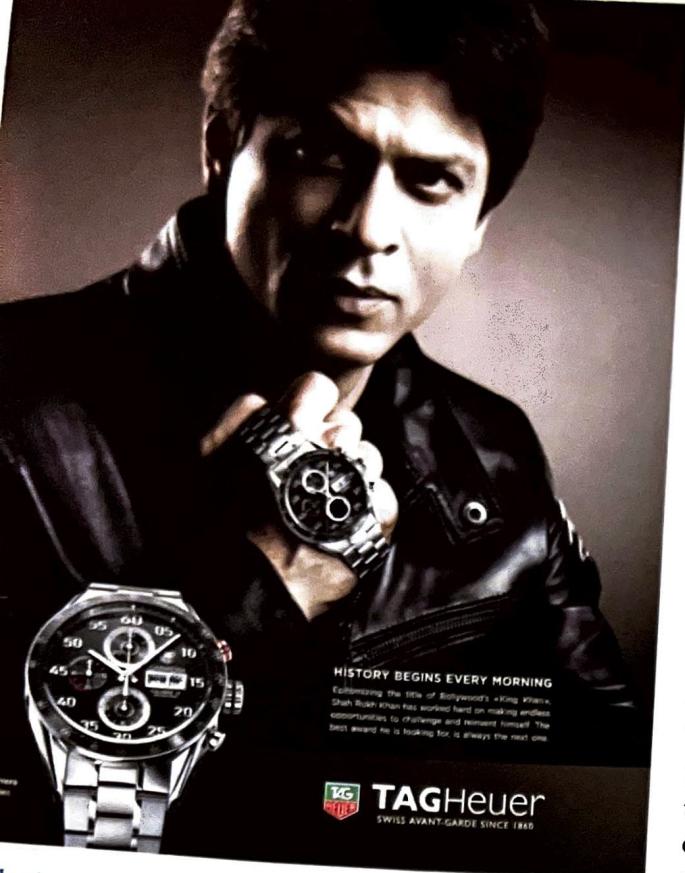
iBall Aasaan, targeted at senior citizens, has features that are compatible with the needs of the segment.

Today, many companies are targeting women, and not just men, for their two-wheeler brands. Mahindra Rodeo, for example, uses Kareena Kapoor as its brand ambassador, suggesting the brand's qualities of power and style.

It's got power.
It's got style.
She's got her eyes on it.

Mahindra RODEO. With a 109cc engine and cool features like front disc brakes, digital display, anti-theft system, & a strong 12-months no-hassle warranty, even Kareena wants to ride it.

Mahindra RODEO



The increase in income, wristwatch brands such as TAG Heuer are increasing visibility and presence in the market.

INCOME Segmentation based on income 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 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. As a result of economic growth, many luxury products and high-end brands are making their foray into the Indian market. Wristwatch brands such as Rolex, Omega, and TAG Heuer are advertised regularly in the Indian media. Titan has introduced Xylys as a separate brand catering to the higher end of the wristwatch market. At the same time, markets for many consumer products are showing rapid growth due to low unit price packaging targeted at consumers for whom affordability is a major criterion of product and brand choice. Detergents, shampoos, hair oil, and a host of packaged products are available in small sachets for one-time consumption in low unit prices. These have become quite popular in South Asian countries as these help in overcoming income constraints and encourage trials. In another extension of what has been labeled as "sachet marketing," Grameenphone, one of Bangladesh's leading cell phone operators, offers a special economy package to women designated as "phone ladies" in small villages that do not have fixed phone lines. These phone ladies share their cell phones with other villagers for a few taka (the local currency) a call.⁸ In South Asia, keeping the unit price low through appropriate packaging is one of the ways to reach a large mass of consumers who may not be able to participate in the market exchange otherwise.

Markets in South Asia and other emerging markets can develop only if the poorer sections of consumers participate in the market exchange and become consumers of products and services. However, utilizing the dormant potential of these markets needs innovative thinking. The late C. K. Prahalad forcefully argued for the need to engage consumers at the "bottom of the pyramid" (BOP) through market development efforts by companies.⁹ Said Prahalad, "If large firms approach this market with the BOP consumers' interests at heart, it can also lead to significant growth and profits for them."¹⁰ Contrary to popular perception, targeting poorer consumers does not imply financial sacrifices and subsidies. Using innovative ways to cater to the requirements of poorer consumers not only serves a social cause but also generates income. An example of an effective implementation of the social objective of serving the needs of the poor without compromising on financial viability is the case of Aravind Eye Care System, a group of institutions offering world-class eye care to poor people in rural and urban India.¹¹

SOCIO-ECONOMIC CLASSIFICATION The complexity of the Indian market due to a host of factors has reduced the validity of any single segmentation variable as a good predictor of consumption preferences and habits. This has prompted the development of an index called Socio-Economic Classification (SEC) to classify urban households in India. This classification is based on a combination of two factors—the education level and the occupation of the head of the household. Classification based on these two dimensions is presented in Table 7.2. SEC A and SEC B refer to higher consumption groups constituting about a quarter of the urban households, and SEC C forms another 21 percent. SEC D and SEC E constitute the remaining households. This classification is conceptually similar to the SEC classification of rural markets discussed in "Marketing Insight: Segmenting Rural Markets."

The Socio-Economic Classification of rural and urban households described in Tables 7.2 and 7.3 was developed under the initiative of the Market Research Society of India (MRSI) in the mid-1980s. While this classification has served the purpose for which it was developed, there has been some rethinking about modifying this classification scheme to reflect the social and economic changes in the country. In addition, the need to follow a unified classification scheme for urban and rural markets has also been felt by marketing practitioners. Considering these requirements, the Research Users' Council (MRUC) and the Market Research Society of India (MRSI) collab-

TABLE 7.2

Socio-Economic Classification of India's Urban Market

| Occupation | Education | | | | | | |
|----------------------|------------|-----------------------------|---------------------|--------------------|------------------------|----------|--------------|
| | Illiterate | Less than 4 Years in School | 5-9 Years of School | School Certificate | Some College Education | Graduate | Postgraduate |
| Skilled | E2 | E1 | D | C | C | B2 | B2 |
| Unskilled | E2 | E2 | E1 | D | D | D | D |
| Shop Owner | D | D | C | B2 | B2 | A2 | A2 |
| Petty Trader | E2 | D | D | C | C | B2 | B2 |
| Employer of: | | | | | | | |
| Over 10 persons | B1 | B1 | A2 | A2 | A1 | A1 | A1 |
| Less than 10 persons | C | B2 | B2 | B1 | A2 | A1 | A1 |
| None | D | C | B2 | B1 | A2 | A1 | A1 |
| Clerk | D | D | D | C | B2 | B1 | B1 |
| Supervisor | D | D | C | C | B2 | B1 | A2 |
| Professional | D | D | D | B2 | B1 | A2 | A1 |
| Senior Executive | B1 | B1 | B1 | B1 | A2 | A1 | A1 |
| Junior Executive | C | C | C | B2 | B1 | A2 | A2 |

Source: Media Research Users' Council

in Table 7.3. A description of these SEC groups as discussed by Pradeep Kashyap is presented here.¹²

SEC R1 Farmers who are landlords, those who are educated and have exposure to the urban environment, and children studying in nearby towns exhibit a lifestyle closer to that of urban areas, adopt modern technology, and own consumer durable products such as tractors, refrigerators, and two-wheelers. Such people comprise SEC R1.

SEC R2 This group includes rich farmers with about 5 acres of land, who may not be educated but want their children to be educated. They aspire to have a high social status and own some consumer durables such as TVs, tractors, and two-wheelers.

SEC R3 This group has landholdings of between 2 acres and 5 acres, and children studying in village schools. They are conservative in technology adoption and own some consumer durable products.

SEC R4 This group is engaged in agricultural labor, has low income, and uses subsidized food grains and other products distributed through the public distribution system.

Availability of marketing infrastructure and the efforts needed to develop these in rural areas are issues facing marketers. *Haats* (periodic village markets) and *mandis* (agricultural markets set up by government agencies to facilitate the exchange of agricultural produce) serve important roles in the exchange of goods and services in rural areas. Many companies have profited from adapting products and packages to suit rural consumers. Shampoos, detergents, and many other fast-moving consumer products are available in small pack sizes to induce trial and to suit the purchasing power of rural consumers.

(continues)



Marketing Insight

Segmenting Rural Markets

Rural markets in South Asia are heterogeneous in terms of their literacy levels; income; spending power; availability of electricity, telephone networks, roads, and other infrastructure; and social and cultural orientations of people. These differences influence the market potential and buying patterns and habits of consumers. Approximately 25 percent to 30 percent of people in South Asian countries live in rural areas. The size, potential, and current penetration levels of different products provide strong reasons for companies to adopt a marketing strategy crafted specifically for rural markets.

One of the useful segmentation schemes for rural areas used in India is Socio-Economic Classification (SEC), which uses a combination of two variables—the education of the chief wage earner and the type of house they live in. This scheme, which is a modified version of the segmentation scheme for urban areas, classifies consumers into four classes—R1, R2, R3, and R4. The combination of the two variables and the Socio-Economic Classification applicable is presented

TABLE 7.3 Socio-Economic Classification of Rural Consumers in India

| Education of Chief Wage Earner | Type of House | | |
|--------------------------------|---------------|------------|---------|
| | Pucca | Semi-pucca | Kuchcha |
| Professional degree | R1 | R2 | R3 |
| Graduation/PG | R1 | R2 | R3 |
| College | R1 | R2 | R3 |
| SSC/HSC | R2 | R3 | R3 |
| Class 4–Class 9 | R3 | R3 | R4 |
| Up to Class 4 | R3 | R3 | R4 |
| Self-learning | R3 | R4 | R4 |
| Illiterate | R4 | R4 | R4 |

Source: Media Research Users' Council (MRUC)

LG, Videocon, Samsung, and other companies marketing consumer durable products have developed specific models for catering to rural markets. The success of marketing efforts in rural areas depends on the marketer's ability to prioritize rural markets, develop products at appropriate price points and distribution infrastructure, and communicate with rural audiences.

Currently, although the Socio-Economic Classification for markets presented in Table 7.3 is still prevalent, there has been thought and research for developing a unified classification scheme for urban and rural markets. Therefore, the existing classification is likely to undergo some modifications in due course after necessary testing and validation studies that are underway.



are emerging as markets for many services.

group, called young adults.¹³ There are also indications that young people aged between 4 and 17 years play a major role in the buying decisions of families in urban areas.¹⁴ This study indicates that about 63 percent of children are involved in purchase decisions for a wide range of product categories such as computers, bicycles, clothes, television sets, and automobiles. Their influence ranges from about 76 percent in the buying decisions of cell phone handsets to 43 percent in the case of mobile phones. About 20 percent of the parents studied consult their children while buying household products. About 46 percent parents believe that children's opinions are based on the responses they receive. Brand names have emerged as an important consideration for children. Most children get the needed information from television, followed by print media and outdoor media. The information provided by this study points toward the role of "consultants" that children play in buying decisions. They form a major target audience for marketers' communication efforts.

and suggested modifications to the classification scheme by substituting one of the two dimensions, namely, occupation of the chief wage earner, with access to possession of specific assets by the household. This modification is under testing and validation for stability and robustness. Therefore, although there has been an announcement about the modified SEC classification, the same has not been officially adopted as the substitute scheme as of now.

GENERATION Each generation or cohort is profoundly influenced by the times in which it grows up. The music, movies, politics, and defining events of a period. The younger generation plays a significant role not only as consumers but also as initiators and influencers of buying decisions. As one author points, "Youth is an amalgamation of two behaviorally distinct groups consisting of 13–18-year old teenagers and the 19–24 year olds."

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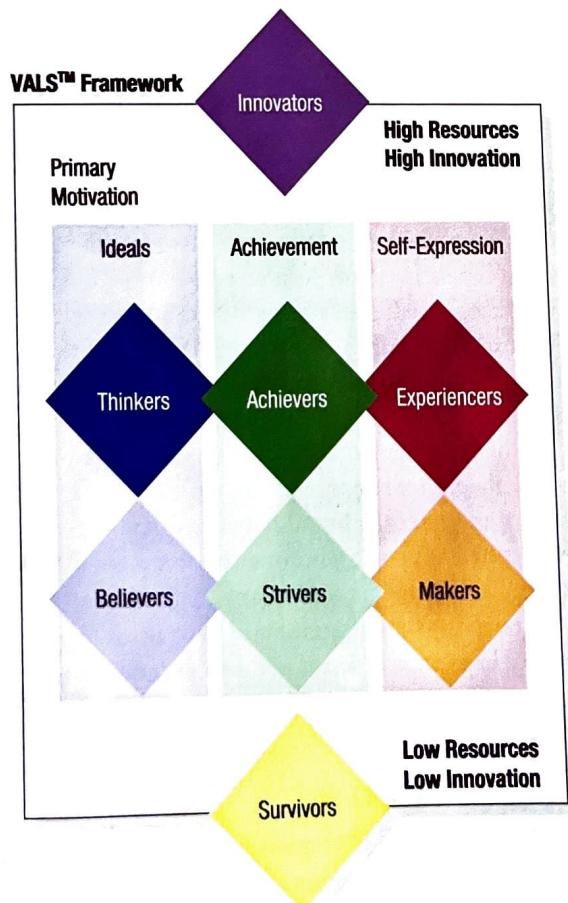
Social Networks Today's marketers actively use social networking sites such as Facebook and Orkut to segment customers on the basis of their expressed opinions, concerns, and preferences. By analyzing trends in the themes and issues that dominate conversations in social media such as Orkut, Facebook, Twitter, and YouTube, companies can develop a deeper understanding of the needs of different customer groups. This helps in making important marketing decisions in the areas of product modification and improvement, communication strategies, and pricing, and in adapting other marketing mix elements based on customer needs. Using data mining approaches appropriate for such data, companies can even micro-target specific customers with customized communication. Many hotels and travel portals, for example, are increasingly using social networks to identify appropriate clients. They publicize new activities and deals for these customers and engage in dialogues with them. Luxury hotels employ social media managers to carry out this process with select groups of customers. Twitter's new advertising platform, Promoted Tweets, is tied to searches within Twitter and allows advertisers to place tweets relevant to customers. Users can respond to the tweet by replying or re-tweeting.

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.

One of the most popular commercially available classification systems based on psychographic measurements is Strategic Business Insight's (SBI) VALS™ framework. VALS, signifying values and lifestyles, classifies U.S. adults into eight primary groups 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 7.1). You can find out which VALS type you are by going to the SBI Web site.¹⁵

The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimension) and consumer resources (the vertical dimension). Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look



|Fig. 7.1| ▲

**The VALS Segmentation System
An Eight-Part Typology**

Source: VALS™ © Strategic Business Insights. www.strategicbusinessinsights.com/VALS. Used with permission.

for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and vanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of his or her primary motivation.

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 motivated by ideals and who value order, knowledge, and responsibility. They seek durability, functionality, and value in products.
3. **Achievers**—Successful, goal-oriented people who focus on career and family. They favor premium products that demonstrate success to their peers.
4. **Experiencers**—Young, enthusiastic, impulsive people who seek variety and excitement. They spend a comparatively high proportion of income on fashion, entertainment, and socializing.

The four groups with lower resources are:

1. **Believers**—Conservative, conventional, and traditional people with concrete beliefs.
2. **Strivers**—Trendy and fun-loving people who are resource-constrained. They 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.
4. **Survivors**—Elderly, passive people concerned about change and loyal to their favorite brands.

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 concepts: life orientation (traditional ways, occupations, innovation, and self-expression) and attitudes to social change (sustaining, pragmatic, adapting, and innovating).

Religion can also have a significant influence on the values, attitudes, and lifestyles of customers and, as a consequence, in shaping the product and brand choices of consumers. The norms that people follow with respect to food habits or dress codes are some examples of this influence. A significant number of consumers in India are strictly vegetarian. And among those who do eat nonvegetarian food, many avoid beef. As a result, many restaurants and food manufacturers in India have had to create specific products for different customer segments. For instance, McDonald's had to change their menu in India to adapt to consumer preferences. In India, beef is avoided in the menu of McDonald's. Instead, the company has introduced vegetarian burgers such as the McVeggie burger and the McAlloo Tikki burger and other products for customers who prefer vegetarian food. Another example of market segmentation on the basis of customers' religious beliefs can be seen in the marketing of meat products in the Indian subcontinent. *Halal* meat is meat that is seen as permissible according to Islamic law. Meat imported to countries like Pakistan and Bangladesh from other countries has to be certified as *Halal* by approved Islamic organizations. Many restaurants and hotels in South Asia serve both *Halal* and *Jhatka* (meat prescribed among Hindus and Sikhs) dishes for Muslim and non-Muslim guests, respectively.

Marketers can apply their understanding of VALS segments to marketing planning. The market for wristwatches provides an illustration of segmentation based on lifestyle parameters. In India, Titan watches have a wide range of sub-brands within their Titan range—Edge, Regalia, Nebula, Raga—to appeal to different lifestyle segments. Some of these models are ornate watches with gold-plated bracelets and some with leather straps, each appealing to different lifestyle segments. The range of watches and accessories under the brand name Fastrack appeals to the youthful segment while the brand Sonata is targeted at people who want to own a good-looking watch at an affordable price. Yet another example is Hidesign, a company that manufactures and markets high-end leather accessories such as travel bags, briefcases, and handbags. This brand is targeted at people who value “style and elegance in a classical sense”—those who want to make a personal statement about themselves and the evolved nature of their preference.

Behavioral Segmentation

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

NEEDS AND BENEFITS Not everyone who buys a product has the same needs or wants the same benefits from it. Needs-based or benefits-based segmentation is a widely used approach because it identifies distinct market segments with clear marketing implications. A shampoo, for example, may offer various benefits, such as basic cleaning, conditioning, shine and bounce, dandruff control, or suitability for different hair types. Brands such as Clinic, Chic, Pantene, Head & Shoulders, and Sunsilk offer variant products targeted at diverse benefit segments. In the bathing soap category, Liril offers the benefit of "freshness" while Dettol soap offers the benefit of "total protection." In the fabric-wash market, consumers seeking the benefit of protection of delicate clothes prefer mild detergents, so the liquid detergent brand Ezee from Godrej is positioned as Ariel Front-o-Mat—specific varieties of detergent powders that generate less lather and are suitable for use in washing machines. Since benefits that consumers seek in the same product or service category vary, a need-based segmentation is useful for identifying market opportunities and for developing relevant value propositions for consumers.

DECISION ROLES People play five roles in a buying decision: *Initiator, Influence, Decider, Buyer, and User*. Recognition of the different buying roles and identification of those who play these roles for a given product or service are vital for effective marketing. This is especially useful while designing the communication strategy. In pharmaceutical products, for example, since doctors prescribe specific brands of medicines, pharmaceutical companies influence doctors' prescription behavior by providing technical information about products through periodical visits by medical representatives, conferences, free samples, or Web site information. Women play a significant role in deciding on brands of kitchen appliances and initiating the purchase of many household products. Therefore, many advertisements and promotional efforts for such products are directed at homemakers. The relative influence of mass media advertisements, presentations by salespeople, suggestions by shopkeepers, and recommendations by friends, children, or relatives may vary depending on the nature and type of products. This is particularly true in the case of products where the perceived risk of buying is high. While developing marketing plans and communication strategies, companies need to identify and specify the role players in the consumption system and the means and modalities of reaching out to them.

USER AND USAGE—REAL USER AND USAGE-RELATED VARIABLES Many marketers believe variables related to various aspects of users or their usage—occasions, user status, usage rate, buyer-readiness stage, and loyalty status—are good starting points for constructing market segments.

Occasions Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer's life. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use a product. For example, air travel is triggered by occasions related to business, vacation, or family. Greeting cards are designed for different festival seasons and special occasions that trigger their buying, such as Christmas, New Year, birthdays, weddings, anniversaries, Teachers' Day, Valentine's Day, the birth of a child, and so on. Many durable products such as two-wheelers, cars, television sets, refrigerators, and other white goods are heavily advertised and promoted during festive occasions. Chocolates, sweets, and dry fruits are specifically packed for festivals like Holi and Diwali. Occasion segmentation can help expand product usage.

User Status Every product has its nonusers, ex-users, potential users, first-time users, and regular users. Blood banks cannot rely only on regular donors to supply blood; they must also recruit new first-time donors and contact ex-donors, each with a different marketing strategy. The key to attracting potential users, or even possibly nonusers, is understanding the reasons they are not using. Do they have deeply held attitudes, beliefs, or behaviors or just lack knowledge of the product or brand benefits and usage?

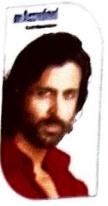
Included in the potential-user group are consumers who will become users in connection with some life stage or life event. Mothers-to-be are potential users who will turn into heavy users. Producers of infant products and services learn their names and shower them with products and ads to capture a share of their future purchases. 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 We can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption. Cellular phone

service providers calculate the average revenue per user. Heavy users often attract one heavy user than several light users. A potential problem, however, is that heavy users often either extremely loyal to one brand or never loyal to any brand and are always looking for the lowest price. They also may have less room to expand their purchase and consumption.

Buyer-Readiness Stage Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. To help characterize how many people are at different stages and how well they have converted people from one stage to another, marketers can employ a *marketing funnel* to break down the market into different buyer-readiness stages.

The proportions of consumers at different stages make a big difference in designing the marketing program. In the case of products or services that consumers are not familiar with, marketers need to educate, inform, and persuade consumers so that they start accepting the new offer. LifeCell International's marketing effort is one such example.



LifeCell LifeCell International pioneered umbilical cord stem cell banking (UCSCB) in India. The procedure requires collection and cryogenic storage of umbilical cord blood which is a rich source of unspecialized and immature cells called cord stem cells. The stem cells can be used at later stages in life to treat some genetic disorders and life-threatening diseases through genetic engineering. This method serves as bio-insurance for children. To get the cord stem cells, blood is collected in special bags from the umbilical cord right after a baby's birth. The stem cells are then separated for long-term storage at an extremely low temperature of -190° Celsius. Clients pay for the collection and long-term storage of cord blood cells. The company has invested significant efforts in creating awareness among the medical fraternity and among expectant mothers through a variety of methods such as advertisements, seminars, workshops, presentations, distribution of promotional literature, and medical exhibitions. The concept is still in the nascent stage in South Asia and people are gradually becoming aware of its long-term benefits.¹⁶



Thank you LifeCell

for securing my child's health forever.

Preserve your baby's umbilical cord stem cells at the time of birth and secure your baby's life forever.

Hrithik Roshan,
Actor



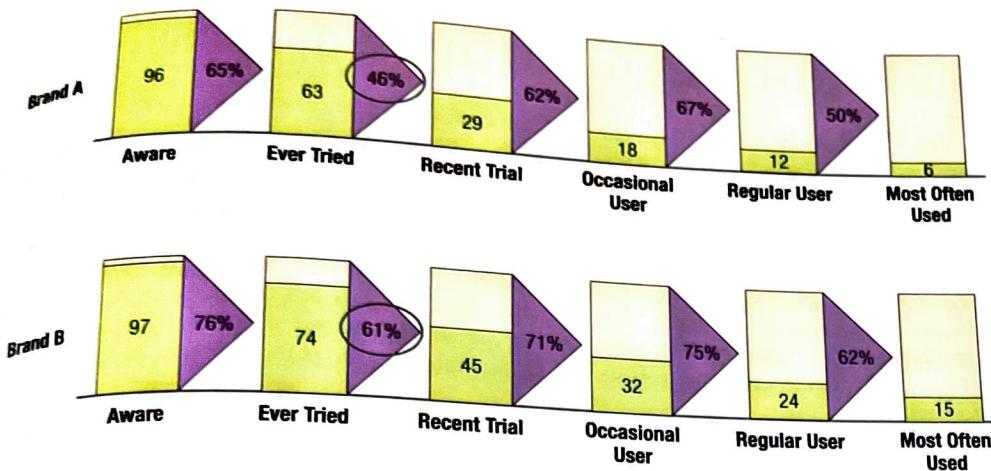
uses celebrity endorsements to introduce umbilical cord banking in India.

Figure 7.2 displays a funnel for two hypothetical brands. Compared to Brand B, Brand A performs poorly at converting one-time users to more recent users (only 46 percent convert for Brand A compared to 61 percent for Brand B). Depending on the reasons consumers didn't use again, a marketing campaign could introduce more relevant products, find more accessible retail outlets, or dispel rumors or incorrect beliefs consumers hold.

Loyalty Status Marketers usually envision four groups based on 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 brand¹⁷

A company can learn a great deal by analyzing degrees of brand loyalty: Hard-core loyals help identify the products' strengths; split loyals can show the firm which brands are most competitive with its own; and by looking at customers dropping its brand, the company can learn about its marketing weaknesses and attempt to correct them. One caution: What appears



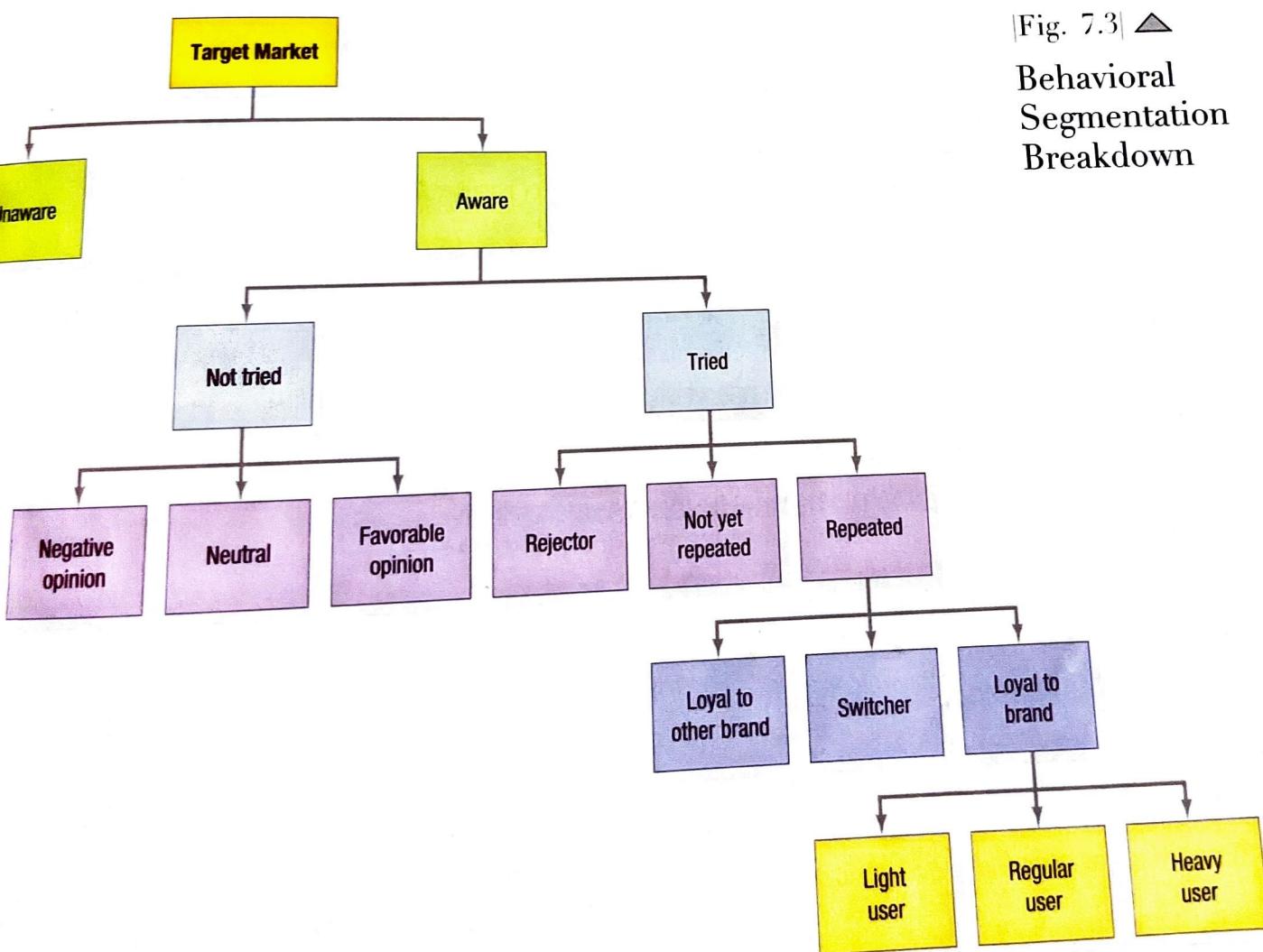
|Fig. 7.2| ▲

Example of Marketing Funnel

brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the unavailability of other brands.

Attitude Five consumer attitudes about products are enthusiastic, positive, indifferent, negative, and hostile. Door-to-door workers in a political campaign use attitude to determine how much time to spend with each voter. They thank enthusiastic voters and remind them to vote, reinforce those who are positively disposed, try to win the votes of indifferent voters, and spend no time trying to change the attitudes of negative and hostile voters.

Multiple Bases Combining different behavioral bases can provide a more comprehensive and cohesive view of a market and its segments. ▲ Figure 7.3 depicts one possible way to break down target market by various behavioral segmentation bases.



Bases for Segmenting Business Markets

We can segment business markets with some of the same variables we use in consumer marketing, such as geography, benefits sought, and usage rate, but business marketers also use other variables by the operating variables—down to the personal characteristics of the buyer.

Table 7.4 shows one set of these. 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 can sell tires to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. Within a chosen target industry, it can further segment by company size and set up separate operations for selling to large and small customers.

A company can segment further by purchase criteria. Government laboratories need low price and service contracts for scientific equipment, university laboratories need equipment that requires little service, and industrial labs need equipment that is highly reliable and accurate.

Business marketers generally identify segments through a sequential process. Consider an aluminum company: The company first undertook macrosegmentation. It looked at which end market to serve: automobile, residential, or beverage containers. It chose the residential market and it 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.

TABLE 7.4 Major Segmentation Variables for Business Markets

Demographic

1. *Industry:* Which industries should we serve?
2. *Company size:* What size companies should we serve?
3. *Location:* What geographical areas should we serve?

Operating Variables

4. *Technology:* What customer technologies should we focus on?
5. *User or nonuser status:* Should we serve heavy users, medium users, light users, or nonusers?
6. *Customer capabilities:* Should we serve customers needing many or few services?

Purchasing Approaches

7. *Purchasing-function organization:* Should we serve companies with a highly centralized or decentralized purchasing organization?
8. *Power structure:* Should we serve companies that are engineering dominated, financially dominated, and so on?
9. *Nature of existing relationship:* Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
10. *General purchasing policies:* Should we serve companies that prefer leasing? Service contract? Systems purchases? Sealed bidding?
11. *Purchasing criteria:* Should we serve companies that are seeking quality? Service? Price?

Situational Factors

12. *Urgency:* Should we serve companies that need quick and sudden delivery or service?
13. *Specific application:* Should we focus on a certain application of our product rather than all applications?
14. *Size or order:* Should we focus on large or small orders?

Personal Characteristics

15. *Buyer-seller similarity:* Should we serve companies whose people and values are similar to ours?
16. *Attitude toward risk:* Should we serve risk-taking or risk-avoiding customers?
17. *Loyalty:* Should we serve companies that show high loyalty to their suppliers?

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

Business-to-business marketing experts James C. Anderson and James A. Narus have urged marketers to present flexible market offerings to all members of a segment.¹⁸ 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. For example, automobile companies in India offer different versions of the same model with options of different features. The base model of the vehicle may not have optional features such as a music system, 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 an economy class and a 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 food, and greater preference while checking in and boarding the aircraft.

Market Targeting

There are many statistical techniques for developing market segments.¹⁹ Once the firm has identified its market-segment opportunities, it must 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*, as introduced previously. Roger Best proposed the seven-step approach shown in Table 7.5.

Effective Segmentation Criteria

Not all segmentation schemes are useful. 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 less than four feet tall.
- **Accessible.** The segments can be effectively reached and served.

TABLE 7.5 Steps in the Segmentation Process

| | Description |
|-----------------------------|--|
| 1. Needs-Based Segmentation | Group customers into segments based on similar needs and benefits sought by customers 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 storyboard" 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 Roger J. Best, *Market-Based Management*, 5th ed. (Upper Saddle River NJ: Prentice Hall, 2009). ©2009. Printed and electronically reproduced by permission of Pearson Education, Upper Saddle River, New Jersey.

- **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.

Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers. The threats these forces pose are as follows:

1. **Threat of intense segment rivalry**—A segment is unattractive if it already contains numerous strong, or aggressive competitors. It's even more unattractive if it's stable or declining, if planned capacity must be added in large increments, if fixed costs or exit barriers are high, or if competitors have high stakes in staying in the segment. These conditions will lead to frequent price wars, advertising battles, and new-product introductions and will make it expensive to compete. The cellular phone market has seen fierce competition due to segment rivalry.
2. **Threat of new entrants**—The most attractive segment is one in which entry barriers are high and exit barriers are low.²⁰ Few new firms can enter the industry, and poorly performing firms can easily exit. When both entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When both entry and exit barriers are low, firms easily enter and leave the industry, and returns are stable but low. The worst case is when entry barriers are low and exit barriers are high: Here firms enter during good times but find it hard to leave during bad times. The result is chronic overcapacity and depressed earnings for all.
3. **Threat of substitute products**—A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. If technology advances or competition increases in these substitute industries, prices and profits are likely to fall.
4. **Threat of buyers' growing bargaining power**—A segment is unattractive if buyers possess strong or growing bargaining power. The rise of retail giants such as Walmart has led some analysts to conclude that the potential profitability of packaged-goods companies will become curtailed. Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of their costs, when the product is undifferentiated, when buyers' switching costs are low, when buyers are price-sensitive because of low profits, or when they can integrate upstream. To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers. A better defense is developing superior offers that strong buyers cannot refuse.
5. **Threat of suppliers' growing bargaining power**—A segment is unattractive if the company's suppliers are able to raise prices or reduce quantity supplied. Suppliers tend to be powerful when they are concentrated or organized, when they can integrate downstream, when there are few substitutes, when the supplied product is an important input, and when the costs of switching suppliers are high. The best defenses are to build win-win relationships with suppliers or use multiple supply sources.

Evaluating and Selecting the Market Segments

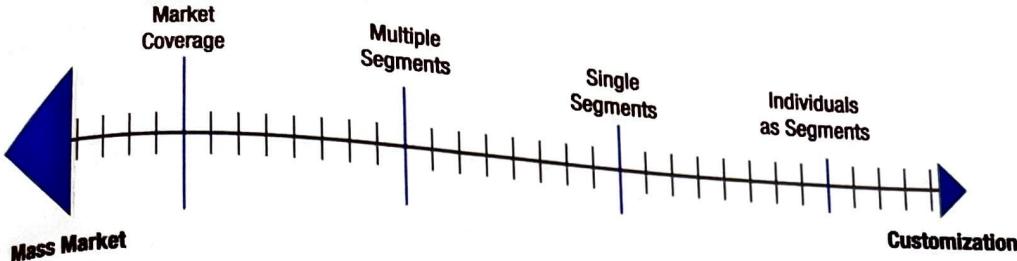
In evaluating different market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does it have characteristics that make it generally attractive, such as size, growth, 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.

Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions. As Figure 7.4 shows, at one end is a mass market of essentially one segment; at the other are individuals or segments of one person. Between lie multiple segments and single segments. We describe each of the four approaches next.

FULL MARKET COVERAGE With full market coverage, a firm attempts to serve all customer groups with all the products they might need. Only very large firms such as Microsoft, IBM, and

Fig. 7.4

Possible Levels of Segmentation



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 differentiated or undifferentiated marketing.

In *undifferentiated* or *mass marketing*, the firm ignores segment differences and goes after the whole market with one offer. It designs a marketing program for a product with a superior image that can be sold to the broadest number of buyers via mass distribution and mass communications. Undifferentiated marketing is appropriate when all consumers have roughly the same preferences and the market shows no natural segments. Henry Ford epitomized this strategy when he offered the Model-T Ford in one color, black.

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. The narrow product line keeps down the costs of research and development, production, inventory, transportation, marketing research, advertising, and product management. The undifferentiated communication program also reduces costs. However, many critics point to the increasing splintering of the market, and the proliferation of marketing channels and communication, which make it difficult and increasingly expensive to reach a mass audience.

When different groups of consumers have different needs and wants, marketers can define multiple segments. The company can often better design, price, disclose, and deliver the product or service and also fine-tune the marketing program and activities to better reflect competitors' marketing. In *differentiated marketing*, the firm sells different products to all the different segments of the market.

Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. Because differentiated marketing leads to both higher sales and higher costs, no generalizations about its profitability are valid.

MULTIPLE SEGMENT SPECIALIZATION With *selective specialization*, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. The multisegment strategy also has the advantage of diversifying the firm's risk.

Keeping synergies in mind, 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. A firm can also attempt to achieve some synergy with product or market specialization.

- With *product specialization*, the firm sells a certain product to several different market segments. A microscope manufacturer, for instance, sells to university, government, and commercial laboratories, making different instruments for each and building a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology.
- With *market specialization*, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories. The firm gains a strong reputation among this customer group and becomes a channel for additional products its members can use. The downside risk is that the customer group may suffer budget cuts or shrink in size.

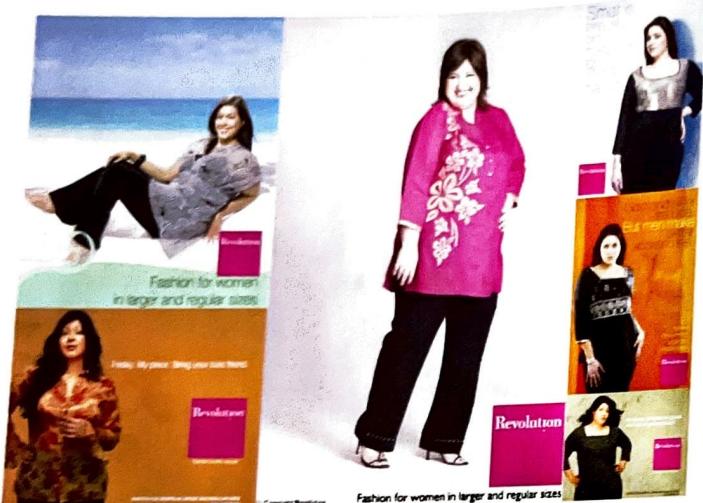
SINGLE-SEGMENT CONCENTRATION With single-segment concentration, the firm markets to only one particular segment. Porsche concentrates on the sports car market and

Volkswagen on the small-car market—its foray into the large-car market with the Phaeton—failure in the United States. Through concentrated marketing, the firm gains deep knowledge of the segment's needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

A *niche* is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment. Marketers usually identify niches by dividing a segment into subsegments. Niches are created when marketers aim to understand their customers' needs so well that customers willingly pay a premium. When every apparel company in India was classifying women's clothing into L, XL, and XXL, the brand Revolution won niche customers by pioneering the concept of "plus-sized fashion."



Revolution In India, traditional women's garments in large sizes have been very difficult to get because of customized stitching by the neighborhood tailor. However, the same cannot be said for plus-sized Western clothes for the above-average body size. The established players who occupied the retail space in the readymade apparel segment were primarily offering regular-sized clothes. Recognizing the latent demand for plus-sized clothing, two entrepreneurs introduced trendy and fashionable clothes for women under the brand name Revolution. The apparel brand was targeted at fashion-conscious women for whom the standard sizes of readymade Western apparels did not fit properly. Realizing that the usual practice of classifying apparel into XL and XXL sizes was psychologically demeaning, Revolution decided to name the categories as 1, 2, 3, 4, and even 0, -1, and -2. It offers apparel in dimensions starting from size -2 (28") to size 4 (44"). This pioneering effort encouraged all the major garment and apparel retail brands in India to offer plus-sized clothing. Pantaloons has launched specialized lines of dedicated designers under the brand name aLL, and Westside has done so under the brand name GIA.



Revolution—a brand of readymade women's apparel—successfully focuses on the niche segment of plus-sized clothes.

What does an attractive niche look like? Customers have a distinct set of needs; they will pay a premium to the firm that best satisfies them; the niche is fairly small but has size, profit, and growth potential.

and is unlikely to attract many competitors; and the niche gains certain economies through specialization. As marketing efficiency increases, niches that were seemingly too small may become more profitable.²² See "Marketing Insight: Chasing the Long Tail."



Chasing the Long Tail

The advent of online commerce, made possible by technology and epitomized by Amazon.com, eBay, iTunes, and Netflix, has led to a shift in consumer buying patterns, according to Chris Anderson, editor-in-chief of *Wired* magazine and author of *The Long Tail*.

In most markets, the distribution of product sales conforms to a bell curve weighted heavily to one side—the "head"—where the bulk of sales are generated by a few products. The curve falls rapidly toward zero and hovers just above it far along the X-axis—the "long tail"—where the vast majority of products generate very little sales. The market traditionally focused on generating "hit" products that occupied the head, disdaining the low-revenue market niches comprising the tail. The Pareto principle-based "80–20" rule—that 80 percent of a firm's revenue is generated by 20 percent of a firm's products—is often used to support this thinking.

Anderson asserts that as a result of consumers' enthusiastic adoption of the Internet as a shopping medium, the long tail is significantly more valuable than before. In fact, Anderson argues, the Internet has directly contributed to the shifting of demand "down the tail," or "hits to niches" in a number of product categories including books,

books, clothing, and movies. According to this view, the rule that now prevails is more like "50–50," with smaller-selling products adding up to half a firm's revenue.

Anderson's long tail theory is based on three premises: (1) Lower costs of distribution make it economically easier to sell products without precise predictions of demand; (2) The more products available for sale, the greater the likelihood of tapping into latent demand for niche tastes unreachable through traditional retail channels; and (3) If enough niche tastes are aggregated, a big new market can result.

Anderson identifies two aspects of Internet shopping that support these premises. First, the increased inventory and variety afforded online permit greater choice. Second, the search costs for relevant new products are lowered due to the wealth of information online, the filtering of product recommendations based on user preferences that vendors can provide, and the word-of-mouth network of Internet users.

Some critics challenge the notion that old business paradigms have changed as much as Anderson suggests. Especially in entertainment, they say, the "head" where hits are concentrated is valuable

also to consumers, not only to the content creators. One critique argued that "most hits are popular because they are of high quality," and another noted that the majority of products and services making up the long tail originate from a small concentration of online "long-tail aggregators."

Although some academic research supports the long tail theory, other research is more challenging, finding that poor recommendation systems render many very low-share products in the tail so obscure and hard to find they disappear before they can be purchased frequently enough to justify their existence. For companies selling physical products, inventory, stocking, and handling costs can outweigh any financial benefits of such products.

Sources: Chris Anderson, *The Long Tail* (New York: Hyperion, 2006); "Reading the Tail," interview with Chris Anderson, *Wired*, July 8, 2006, p. 30; "Wag the Dog: What the Long Tail Will Do," *The Economist*, July 8, 2006, p. 77; Erik Brynjolfsson, Yu "Jeffrey" Hu, and Michael D. Smith, "From Niches to Riches: Anatomy of a Long Tail," *MIT Sloan Management Review* (Summer 2006), p. 67; John Cassidy, "Going Long," *New Yorker*, July 10, 2006; www.longtail.com; "Rethinking the Long Tail Theory: How to Define 'Hits' and 'Niches,'" *Knowledge@Wharton*, September 16, 2009.

INDIVIDUAL MARKETING The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing."²³ 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 offerings; conduct dialogue with suppliers, users, and product critics; and in many cases design the product they want.

Jerry Wind and Arvind Rangaswamy see a movement toward "customerizing" the firm.²⁴ **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 it need to own manufacturing. It provides a platform and tools and "rents" 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.²⁵

Customization is certainly not for every company.²⁶ It may be very difficult to implement for complex products such as automobiles. It can also raise the cost of goods by more than the customer willing to pay. Some customers don't know what they want until they see actual products, but they also cannot cancel the order after the company has started to work on it. The product may be hard to repair and have little sales value. In spite of this, customization has worked well for some products.

ETHICAL CHOICE OF MARKET TARGETS Marketers must target carefully to avoid consumer backlash. Some consumers resist being labeled. Singles may reject single-serve food packaging because they don't want to be reminded they are eating alone. Elderly consumers who don't feel age may not appreciate products that label them "old."

Market targeting also can generate public controversy when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as poor people) or promote potentially harmful products.²⁷ 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 targeted.

Another area of concern is the millions of kids under the age of 17 who are online. Marketers jumped online with them, offering freebies in exchange for personal information. Many have come under fire for this practice and for not clearly differentiating ads from games or entertainment. Establishing ethical and legal boundaries in marketing to children online and offline continues