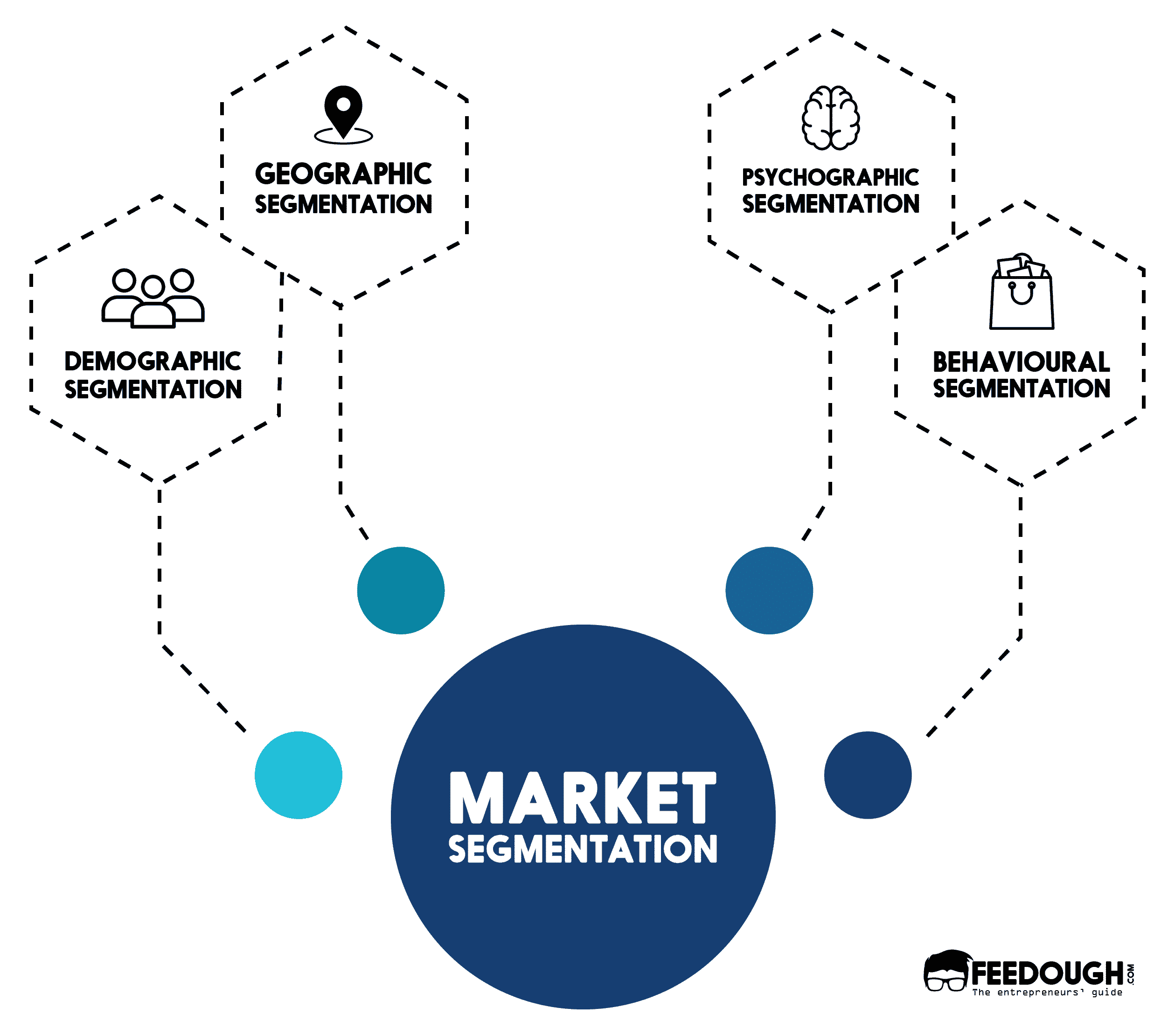
MARKET SEGMENTATION

Market segmentation is the method for achieving maximum market response from initial marketing resources by recognizing differences in the response characteristics of various parts of the market. In this sense market segmentation is the strategy of divide and conquer, i.e., dividing market in order to conquer them.

Market segmentation enables the marketers to give better attention to the selection of customers and offer an appropriate marketing mix for each chosen segment or a group of buyers having homogenous demand. Each subdivision or segment can be selected as a market target to be reached with a distinct marketing mix.

Market segmentation is defined as the segmentation or division of markets into various homogenous coups of customers, each of them reacting differently to promotion, communication, pricing and other variables of the marketing mix. Market segments should be formed in such a way that difference between buyers within each segment is as small as possible.



Thus, every segment can be addressed with an individually targeted marketing mix. Market segmentation and the identification of target markets are an important element of each marketing strategy. The importance of market segmentation results from the fact that the buyers of a product or a service are no homogenous group.

Actually, every buyer has individual needs, preferences, resources and behaviours. Since it is virtually impossible to cater for every customer’s individual characteristics, the marketing people group customers into various market segments by variables they have in common. These common characteristics allow developing a standardised marketing mix for all customers in this segment. They are the basis for determining any marketing mix.

Very often, companies shape their market segmentation using the results of market research and analysis. Market segmentation research is not designed to shape the market. Rather, it reveals underlying divisions in the market and characteristics of the market segments that can be used for effective and profitable marketing.

At the very least, segmentation research places the steps companies take on a firm factual foundation. Often, it also uncovers characteristics of the market that are not obvious and identifies ways of dividing and approaching the market that will be particularly effective. If these ways are not evident to competitors, the marketing impact of segmentation research can be even more beneficial.

At a more tactical level, market segmentation can make the choices a company faces in developing products, services, and marketing messages easier. Often, market segmentation shows that many conceivable combinations of interest in product features, combinations of service needs, or combinations of attitudes are actually very rare in the marketplace.

Segmentation refers to a process of bifurcating or dividing a large unit into various small units which have more or less similar or related characteristics. The concept of market segment is since the market of commodities is not homogeneous but they are heterogeneous. Market represents a group of customers having common characteristics but two customers are never similar in their nature, habits, hobbies, income and purchasing techniques.

Market segmentation is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs, and then designing and implementing strategies to target their needs and desires using media channels and other touch-points that best allow to reach them.

Market segments allow companies to create product differentiation strategies to target them.

So, it can be concluded here that companies cannot connect with all customers in large, broad, complex or diverse markets. But division of such markets is possible into groups of consumers or segments with distinct needs and wants. After that organization can select any segment in which it can perform well and which is best suited for the overall interest of the organization.

This decision requires a keen understanding of the customer behaviour. To develop the best marketing mix, marketer need to understand what makes each segment unique and different. Identification and satisfaction of the right market segment is often the key to marketing success.

Market Segmentation –

Definitions

In order to be a true market segment, the people or organizations in each segment must respond differently to variations in the marketing mix compared with those in other segments. This implies that for any classification, scheme to qualify as market segmentation, the segments must exhibit these behavioural response differences.

Paul Green and Donald Tull set four basic criteria for market segmentation:

1) The segments must exist in the environment (and not be a figment of the researcher’s imagination)

2) The segments must be identifiable (repeatedly and consistently)

3) The segments must be reasonable stable over time, and

4) One must be able to efficiently reach segments (through specifically targeted distribution and communication initiatives).

According to Schiffman and Kanuk, “Market Segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix”.

Rajan Saxena defines, “Segmentation as the process of dividing heterogeneous market into homogeneors sub units.”

As per SJ.Skinner, “Market segmentation is the process of dividing a total market into groups of consumers who have relatively similar product needs.”

Thus, based on the above definitions, it can be concluded that segmentation is to divide a market composed of consumers with diverse characteristics and behaviours into homogeneous segments that contain persons who will all respond similarly to a firm’s marketing effort.

The concept of market segment is since the markets of commodities are not homogenous but they are heterogeneous. Market represents a group of customers having common characteristics but two customers are never common in their nature, habits, hobbies, income and purchasing techniques. They differ in their behaviour and buying decisions. Based on these characteristics, customers having similar qualities are grouped in segments.

According to Philip Kotler, “Market segmentation is sub-dividing a market into distinct and homogeneous subgroups of customers, where any group can conceivably be selected as a target market to be met with distinct marketing mix.”

According to William J. Stanton, “Market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-market or segments, each of which tends to be homogeneous in full significant aspects.”

According to R. S. Davar, “Grouping of buyers or segmenting the market is described as market Segmentation.”

The main aim of market segmentation is to prepare separate programmes or strategies to all segments so that maximum satisfaction to consumers of different segments may be provided. In the words of Philip Kotler, “the purpose of market segmentation is to determine difference among them or marketing to them.”

Market Segmentation – Top 5 Characteristics

Another aspect is the criteria for effective targeting of market segments. The marketers will have to select one or more segments to target with an appropriate marketing mix.

For a segment to be viable, it must have the following characteristics:

**Characteristic #** I.

Identification:

To facilitate division of the market in various segments based on certain common characteristics relevant to a particular product or service, the marketers must be able to identify these characteristics. It is easy to identify certain segmentation variables because they are easily visible or observable.

These are demographics such as age, sex, marital status, education and occupation. This information about demographic variables can be obtained either through observation or through research (by using questionnaires). Similarly, geographic segmentation (region, city size, density of area and climate) can easily be identified as they are observable or through mapping. But there are certain characteristics which are not easily identifiable.

These could be a part of the psychographics, like benefits sought or lifestyle. And it is such intangible consumer behaviour characteristics which will help the marketers, to use it as a base for market segmentation.

**Characteristic #**II.

Measurability:

Another important characteristic ascertains the degree of measurability of the size and purchasing power of the segments. The marketer must be able to determine the size of the market that is to find out how many people are there in the segment and where they are located.

The marketer must be able to measure the sales potential of the segment and be able to determine the extent of influence of the marketing mix elements on the particular segment. For instance, a restaurant may want to improve upon the F & B services offered by it.

The size of the customers will include regular customers as well as occasional customers, the latter may eat and drink (especially the youngsters) to rebel against their parents. A knowledge of such consumer behaviours, though difficult to measure will be useful to the marketer.

**Characteristic #**III.

Accessibility:

The extent to which the market segments can be reached and served is another area of concern. The consumers must be accessible or available to the marketers. For instance, a company which sells ‘skin care products’, may find that heavy users of its brand are teenagers and young women, who are frequent visitors at fast-food centres and beauty parlours.

But unless the firm can get more information on places or store preferences and exposure to various media’s it will be difficult to reach this consumer segment. Because once the firm has found a medium that reaches their consumers, it can communicate with its target segment effectively. Marketers try to reach their consumers through “differentiated marketing for differentiated consumer profiles “.

**Characteristic #**IV.

Substantiality:

Another matter of concern for the marketer is the extent to which the segments are large enough and worthy of investment. For a market segment to be worthwhile, it must have many people with specific needs and interests. The size of the large segment must be big enough to be economically viable. The size of the market is not the only indicator of the economic worthiness of the segment.

It is also necessary to undertake consumer research methodology to determine whether the consumers are dissatisfied or only partly satisfied with the existing products and whether they are willing to pay for the firm’s product. The target segment should be a large homogeneous group worth focusing with a tailored marketing programme.

For instance, a company may observe that ‘retired persons’ prefer to have a rocking chair. But going by the problem faced of space availability in houses, the size of the market is shrinking in nature. In this case the segment will not be substantial to make it a market.

**Characteristic #**V.

Stability:

Marketers would like to target consumers whose behaviours can be predicted. The marketers want to be sure of the stability of the consumers in terms of their demographic and psychological characteristics and wants and needs which are likely to grow faster over a period. Marketers would like to avoid ‘fads’ which may disappear one day because it is unpredictable in terms of durability.

A few years ago, the travel industry noticed that when the ‘airfares’ were reduced (especially with the entry of the low-cost airlines) many middle class customers were exposed to a taste of international travel for leisure.

Today, when economic recession could have a negative impact on the travel plans of most persons, the industry is attempting at segmenting the market by offering special product service offerings to niche market segments. This is aimed at out bound tourists who are moving beyond the popular all family group tours.

Travel companies are now offering segmented (customised) holiday offerings for men and women separately. For instance, Kesari Travels (Mumbai) has ‘My Fair Lady’ offering trips for the woman who would like to let her hair down in the company of other women. They have built up a community around its ‘My Fair Lady’ travellers.

The woman customers are offered a Club Card, with discounts from Card associate companies such as Tanishq, VLCC. They also keep the link alive through get-together organised periodically. The offerings include trips to a variety of domestic and international destinations.

Market Segmentation – Importance

Some of the importance of market segmentation are described below:

1. Co-Ordination of Product and Marketing Appeals – As market segmentation presents an opportunity to understand the nature of the market, the seller can adjust his thrust to attract the maximum number of customers by various publicity media and appeals.

2. Better Position to Spot Marketing Opportunities – As the producer can make a fair estimate of the volume of his sale and the possibilities of furthering his sales in the regions where response of the customers is poor.

3. Allocation of Marketing Budget – It is based on market segmentation that marketing budget is adjusted for a particular region or locality. Specific budget can be allocated according to different market segments.

4. Meeting the Competition Effectively – It helps the producer to face the competition of his rivals effectively. The producer can adopt different strategies for different markets taking into account the rival’s strategies.

5. Effective Marketing Programme – It helps the producer to adopt an effective marketing programme and serve the consumer better at comparatively lower cost. Diverse marketing programmes can be attached for various segments.

6. Evaluation of Marketing Activities – Market segmentation helps the manufacturer to find out and compare the marketing potentialities of the products. It helps to adjust production and using his resources in the most profitable manner. As soon as the product becomes obsolete, the product line could be diversified or discontinued.

Spotting of opportunities in right time is found essential to influence the target market. It is quite natural that the needs and requirements of different users living in different segments, regions are not identical. The marketers bear the responsibility of identifying the difference in preferences so that the strategic decisions are formulated in line with the same. This helps in sensitising the marketing resources. The marketing inputs are found instrumental in developing the required marketing outputs.

We appreciate the crop insurance and cattle insurance facilities for furthering the interests of the agricultural sector, we feel that the insurance organisations come to know the changing needs and requirements of the rural sector and innovate their services/schemes accordingly.

In addition to the mobilisation of savings, we also need to promote investments. This requires an overriding priority to the industrial sector or the corporate sector. The insurance organisations also need to identify profitable opportunities in the services sector.

Knowing and understanding the market is considered significant to the insurance professionals since the process helps them in scanning the changing needs and requirements. The formulation of an optimal marketing strategy is not possible unless we know a segment. The needs and requirements of industrial sector would be different to the needs and requirements of the agricultural sector.

Like this, the needs and requirements of rural sector would be different to the needs and requirements of urban sector. A study of segmentation would help insurance professionals in formulating a sound marketing strategy. The product mix would be competitive and all the prospects would have additional attractions in using the services.

The product portfolio would be sound which would make the marketing processes productive not only for the present but even for the future. The formulation of a sound package would act as a motivational tool. It is in this context that we find segmentation important to the formulation of product mix of the insurance organisations.

The segmentation would help insurance professionals in making the promotional measures creative which would be very much instrumental in sensitising the prospects. The advertisement professionals would make advertisement appeals, messages and campaigns proactive to the receiving capacity of the target audience. The sales promotion measures can also be innovated to get a positive response.

The personal selling may be effective since the sales personnel/agents are supposed to be aware of the needs and requirements of customers/users. Thus, the segmentation would help marketers in many ways. The pricing/fee decisions can also be rationalised and the weaker sections of the society would get substantial benefits. The main thing in segmentation is perceiving the expectations of users/prospects in a right fashion. If we succeed in understanding the users, we also succeed in making the marketing decisions proactive.

These facts are a mute testimony to this proposition that market segmentation would prove its instrumentality in knowing and understanding the changing level of expectations which would simplify the task of insurance professionals. They can also have an idea of identifying the emerging profitable segment of the future. In the Indian perspective, we find rural market to be a profitable market for both the bank and insurance organisations in the 21st century.

If the insurance professionals assign due weightage to the rural segment, they can make their services/schemes rural-oriented and such orientation would make the ways for positive developments. It is against this background that we find market segmentation an essential component of managing the marketing activities and the insurance organisations is supposed to intensify research for exploring new markets found more productive but generating less complications. We cannot negate that the foreign insurance companies assign due weightage to market segmentation and it is since they have an in-depth idea of the emerging profitable markets.

The purpose of insurance business is to cover the maximum possible potential policyholders. In addition, it is also pertinent that liquidity, safety and profitability are given due weightage. Mobilisation of savings and channelisation of investments, if done in a right way would make the insurance business productive.

A market is composed of different users and the corporate objectives focus on covering all the segments so that a sound product portfolio is designed in which the services/schemes of present and future are blended optimally. The market segmentation would make possible formulation of a sound market planning which would make the strategic decisions sensitive.

A closer view of smaller market aggregate would permit the planner to spot opportunities. The development of most profitable or attractive package of insurance services/schemes would also be possible with the help of segmentation. To maximise the rate of profitability, the marketers need to identify the profitable segments.

Since we also expect privatisation of insurance services or deregulating the business conditions, it is high time that the public sector insurance organisations know about the emerging profitable segments.

It is right to say that segmentation needs a priority attention of insurance professionals. How to reach and influence the target market is found meaningful to accomplish the corporate objectives. The segmentation would help marketers in transforming the prospects into users.

Market Segmentation – 3

Bases for Market Segmentation

The step towards developing a segmentation strategy is to allocate base for segmenting the market. These are different variables used for this purpose.

*The bases for market segmentation can be broadly classified into following groups:*

1. Customer based segmentation

2. Product related segmentation

3. Competition related segmentation.

*The bases of segmentation could be classified into the following four categories:*

1. Geographic segmentation (i.e., region, city size, density of population, and climate)

2. Demographic segmentation (i.e., age, gender, marital status, income, education, and income)

3. Psychographic segmentation (i.e., motivation, personality, perception, attitude, and lifestyle)

4. Behavioural segmentation (i.e., benefit, usage rate, loyalty, and awareness state)

Geographic and demographic segmentation are easy to practise. For instance, a market can be divided easily based on age, gender, income, or region. These segmentation bases are also called descriptive bases because these variables are used to describe the consumers.

Behavioural and psychographic bases are difficult to use because of complexity and complications involved in their measurement. For instance, categorization of people in a market based on personality or loyalty requires development of an appropriate measure and complicated analysis.

Unlike objective demographic variables, behavioural variables tend to be subjective constructs. These are not outside descriptors such as age or sex rather mental constructions that need to be captured through psychological instruments.

Another way of looking at segmentation bases is to distinguish whether they are priori or post hoc methods of segmentation. Priori bases of segmentation involve choosing a basis of segmentation variable based on presumptive bases without examination or analysis.

For instance, it is assumed that consumers across age groups or genders are likely to be different. Priori bases of segmentation automatically create groups in a market. When gender is used as a basis of segmentation it would compulsorily break a market into two groups (i.e., male and female).

Once a variable is chosen priori, consumers are assigned to categories with the assumption that they are similar within the segment and are different inter-segment. However, this may not be true.

For instance, men and women are different based on gender but may behave similarly about a product, for instance, preference for a cola drink or ice cream. This behavioural similarity makes this basis of segmentation superfluous. Therefore, priori bases of segmentation may be efficient but may not be effective.

Post hoc methods of segmentation do not automatically create segments; instead, they identify or establish various groups. No assumption is made about the presence of consumer groups in the market. Rather, their presence is inferred after data collection and analysis.

Post hoc segmentation uses clustering procedures on data collected to identify similar groups hidden in a larger set. This method is used in psychographic segmentation. After designing an instrument to measure lifestyle, data is collected from the market to check whether it contains different psychographic clusters.

Demographic segmentation scores high on ease and is less expensive but they score low on consumer behaviour prediction. On the other hand, psychographic segmentation is difficult to conduct and costs more but is more effective in predicting consumer behaviour.

**1. Geographic Segmentation:**

Geography as a discipline deal with the surface characteristics of earth including climate, elevation, soil, and population. Geographic segmentation involves segregating the market into different geographical units. The division of land into different continents, regions, and nations, which is further divided into states and cities, is geographical segmentation.

This method of segmentation is useful when variations in consumers occur with the change of coordinates. Geography influences the way people live and behave. For instance, markets are likely to be different in extreme cold and hot regions.

Similarly, differences can be observed in people of North America, Europe, Middle East, and Asia. Within India, people from east, west, north, and south differ from one another in their buying and consumption behaviours. These geographic differences render standardized marketing ineffective. For instance, coffee is a common beverage in south of India while tea is more prevalent in north of India.

HUL exploited this difference to market Brooke Bond tea and Lipton tea along with Bru coffee. Similarly, Bharti Airtel segmented its market based on geography. It divided the Indian market into east, west, south, north, and central regions. The company runs advertising campaigns created in accordance to tastes and preference of each region. Duckback, makers of waterproof coats, bags, and umbrellas, markets its products in regions that experience high rainfall.

**2. Demographic Segmentation:**

Consumers in a market have different demographic characteristics such as age, gender, income, religion, education, and occupation. These characteristics are easy to measure and are therefore most frequently used by marketers. One of the reasons for their popularity is that demographic characteristics are closely related to consumer needs, wants, and preferences.

This correlation between demographic characteristics and consumer behaviour lends support to this type of segmentation. For instance, income is a powerful predictor of consumer needs and wants. Demographic characteristics are very useful in locating the target market because they can be easily observed.

It is easier to locate consumers by age or income. Demographic variables, however fail to describe how people within a segment think and feel. Very little insights can be gleaned in terms of their cognitive behaviour. Two people who belong to a particular income class are certainly similar with respect to income, but may be radically different from each other in terms of their thinking.

If thinking has more influence on consumer behaviour, then demographic segmentation may offer little insights in strategy development. The intra- segment similarity produced by income is therefore superfluous.

Demographic bases of segmentation are briefly discussed here:

**i. Age:**

People in a market can be divided into different age categories. Age is taken as a variable to perform segmentation with the assumption that consumer needs vary across age groups. This is not an invalid supposition.

For instance, kindergarten, toys, and cartoon channels are directed at kids’ age group; while motorcycles and colleges are aimed at youths. Age-based classification produces segments such as infants, kids, teenagers, adults, and senior citizens.

**ii. Gender:**

It is one of the most palpable differences between people. Biological dissimilarity and social conditioning make men different from women. These differences manifest in their varying responsiveness to products and communication appeals. For instance, sanitary pads are purely female products.

Cultural conditioning and social roles also link product categories with specific genders. For example- jewellery, dolls, beauty products, home making goods, and hair care products have been conventionally linked with women, whereas products such as toy guns, automobiles, hardware, and consumer durables relate to men. Gender-based segmentation easily divides the market to identify what products and services would typically appeal to these groups.

It must also be borne in mind that gender differences and roles are changing. Product classification based on gender is subtly undergoing a change. Therefore, product classification based on stereotypes may fail to capture the true essence of the market. Consider how cosmetics and beauty products have become gender neutral over time.

This has given birth to a whole array of cosmetics and beauty brands that target men such as Fair and Handsome, Brylcreem, Gamier face wash, Nivea, VLCG, and Looks Salon. The reverse is also true; women have become prime target for typical men’s products such as DSLR camera, scooters, and cars.

**iii. Income:**

It is one of the critical determinants of consumer behaviour. Consumer segmentation based on income categories is useful in gaining insights about what kind of products are likely to be consumed. For instance, income’s influence on people determines what they use for transportation, that is, whether they use a cycle, moped, motorcycle, economy car, or luxury car.

Marketers thus cater to different income groups by appropriately designing their products and services. For instance, HUL markets three variants of detergent power, namely Wheel, Surf, and Surf Excel that target the economy, middle, and top end of the market respectively.

Automobile marketers commonly use income-based segmentation to divide their market and sell different variants according to affordability. Income is believed to be the prime driver of consumption but it would be wrong to assume that it is the sole driver. Income determines affordability but consumption is influenced by other factors also.

It would be wrong to assume that people with high incomes are the only buyers of luxury cars and everybody at the lower end of the spectrum buys economy cars. Cars bought on loans suggest that people do jump income boundaries in their consumption behaviour.

Similarly, some affluent people drive small cars too.

**3. Psychographic Segmentation:**

In demographic segmentation, consumers are divided in terms of who they are or what their descriptors are (i.e., age, income, gender, geographic location, and occupation). Psychographic segmentation banks upon the use of psychological, sociological, and anthropological factors to determine how a market is segmented.

Psychographic means measurement of psychological characteristics. Hence, psychographics is about measurement of inner characteristics of an individual. Inner psychological characteristics such as personality, self- image, perception, attitude, and motivation play a role in driving consumer behaviour.

The term psychographic is often used interchangeably with lifestyle. Etymologically, ‘psycho’ signifies that this area of research seeks to explain consumer behaviour by probing below the surface characteristics of a human. Demographic segmentation profiles or classifies consumers based on tangible criteria, whereas psychographic segmentation divides people in terms of what they do, what they prefer, and what they think.

Lifestyle or style of life means pattern of life of a person. Psychological makeup manifests in what a person does (i.e., activities), prefers (i.e., interests), and thinks (i.e., opinions). Psychographic segmen­tation involves measurement of consumer AIOs (Activities Interests and Opinions).

Usually, a ques­tionnaire containing a battery of statements articulated to capture consumer response on activities, interests, and opinions is administered on a representative sample. The data is then statistically ana­lysed to discover clusters of consumers based on their similarity.

One of the pioneering psychographic segmentation studies was done by SRI International. Their VALS2 survey (values and lifestyle) iden­tified eight consumer segments. People in these segments differ in their psychological construction.

Psychological insights matched with demographic information can provide the marketers a complete picture of the segments they are facing. Decisions regarding what kind of products and communication will make sense to them can be made effective by using these insights.

Some of the VALS2 segments are – (i) actualizers (independent, leaders, risk takers), (ii) fulfillers (organized, self-assured, intellectual), (iii) believers (literal, respectful, loyal), (iv) experiencers (impatient, impulsive, spontaneous), and (v) strugglers (cautious, conservative, conformists).

**4. Behavioural Segmentation:**

This method of segmentation uses consumer behaviour aspects for dividing the market. Consumers differ their ways of usage and faithfulness to a product. Divid­ing consumers into different groups based on behavioural aspects can help in appreciating their uniqueness and its marketing implications.

**i. Usage Quantity:**

Consumers in the market can be divided on the basis of usage quantity. One of the easiest ways to arrive at this division is by breaking the market into light, medium, and heavy users.

For instance, market differences in usage can be detected in the consumption of cola. Some consumers occasionally drink cola with an average consumption of less than two litres in a month. Medium users group may consume two to four litres, whereas heavy consumers can consume more than five litres. Coca-Cola’s bigger pet bottles of one litre are aimed at heavy consumers.

**ii. Occasion:**

Marketers do not pre-specify the occasion of consumption of a product. Hence, a product category could be used on various occasions. Market can therefore be segmented on the basis of occasion. For instance, soft drinks can be consumed at different occasions such as quenching thirst while out in the sun, entertaining guests at home, or with dinner.

Tropicana in its bid to expand consumption targeted morning breakfast with the message ‘Now breakfast shall win’. Occasion can also be linked to seasons. For instance, consumer durables, home decor, and wall paint are linked with festival seasons in India. Titan has also promoted watch buying for gifting.

**iii. Loyalty:**

Consumers exhibit different levels of allegiance to the brands consumed. Market could also be segmented on the basis of loyalty status. There are buyers who would never move -away from their preferred brand. They are called true or hard loyal. Consumers who do not care about what brand they consume switch from one brand to the other easily.

This set of consumers is called switchers. Loyalty-based segmentation has gained importance lately because loyal consumers are more profitable. Companies profile their consumers to identify loyalists so that they can be given preferential treatment. Loyalty cards and reward programmes are tools to gauge and manage loyal consumers.

**iv. Benefits Sought:**

Consumers may seek different benefits from a product. These differences provide a logical ground to divide a market on the basis of benefits sought. For instance, two groups of customers in the real estate market are investors and home buyers. Investors buy houses to multiply their investment whereas home buyers buy to live in the dwelling.

Similarly, some people buy gold and diamonds as jewellery while others buy to invest. Benefit segmentation is clearly visible in the toothpaste market. The segments include seekers of social benefit, protection benefit, and economy benefit.

**Segmentation Effectiveness:**

Segmentation is the process of dividing a market into homogeneous groups based on one or more consumer variables. However, segmentation is useful only when it produces groups that are significant for marketing purposes. Six criteria are used to judge segment effectiveness, namely similarity, heterogeneity, sufficiency, stability, accessibility, and profitability.

**i. Similarity:**

The requirement of similarity between consumers within a segment is fundamental. The segmentation process must group consumers in such a way that intra-segment similarity is maximized. Intra-segment similarity implies that consumers within a segment have similar responsiveness to a given marketing stimuli.

**ii. Heterogeneity:**

Segmentation variable sometimes creates segments that have high inter-segment heterogeneity. A segmentation process that breaks the market into different groups but if consumers in these groups exhibit similar responsiveness to a marketing stimuli, then it is a case of superfluous segmentation.

**iii. Sufficiency:**

Segments may differ in terms of the number of consumers contained therein. The number of members in a segment often corresponds with the size of that market. For a segment to be of interest to a marketer, it must have sufficient scope for doing business. The size of a particular segment can be estimated or ascertained by looking into available published statistics. The measures often used to gauge segment sufficiency are expressed in terms of sales and market share.

**iv. Stability:**

A marketer must select a stable and steady segment. This characteristic ensures certainty and assurance that the segment is likely to stay for some duration. Unstable and fickle segments are unpredictable therefore risky. For instance, the fashion segment is erratic and inconsistent and therefore involves risk.

**v. Accessibility:**

An inaccessible segment increases the costs and thereby becomes unattractive in terms of marketing outcomes.

**vi. Profitability:**

Segments are meant to produce surpluses. If for some reasons a segment fails to survive the test of profitability it is not worth pursuing.

Bases of Market Segmentation – With Variables Used by Marketers for Each Type of Segmentation

**1. Geographic Segmentation:**

It is the segmentation on the basis of region of a country or the world, market size, market density, or climate. Market density means the number of people within a unit of land, such as a census tract. Climate is generally used for geographic segmentation because of its dramatic impact on residents’ needs and purchasing behaviour.

Snow-blowers, water and snow skis, clothing, and air-conditioning and heating systems are products with varying appeal, depending on climate.

A regional approach is taking by companies producing consumer goods to marketing for four reasons, which are as follows:

(i) Due to the emergence of sluggish and intensely competitive markets, firms look out for new ways to increase their sales by expanding markets geographically.

(ii) When new regional brands are introduced to appeal the local preferences by packaged-goods manufacturers.

(iii) Computerised checkout stations give retailers an accurate assessment of the best brand in the region.

(iv) A more regional approach allows consumer goods companies to react more quickly to competition.

**2. Demographic Segmentation:**

For demographic segmentation market is divided into groups on the basis of variable such as age, family size, family life-cycle, gender, income, occupation, education, religion, race, generation, nationality and social class. For distinguishing customer groups’ demographic variables are used.

Some of the demographic variables used are:

(i) Gender and sexual orientation – The gender segmentation is a popular forms of segmentation catering to the different needs of male and female as they have been vocal about their separate needs.

(ii) Age and life-cycle stage – The variation in the wants and liabilities of consumer comes with age. On the basis of age, a market can be divided into four parts viz., children, young, adults and old.

(iii) Marital status – Marital status of a person largely influences a person’s lifestyle. While single individual have a more independent and spendthrift attitude, with more expenditure on food and entertainment, individuals who are married allocate large part of their income on durable goods and household needs.

(iv) Family size – The size of the family determines the amount and size of purchases. The consumption pattern of a big-sized joint family differs from a small-sized nucleus family.

(v) Social class – Strongly influences the preference like in cars, clothing, home furnishings, leisure activities, reading habits, etc. Many companies design products and services for specific social classes.

(vi) Educational level – The academic standard segments people with same income, i.e., with a similar ability to buy into their different likelihood to buy.

(vii) Occupation – Various occupations determines the buying behaviour. People in sales and people in academic training will have different purchase behaviour.

(viii) Religion – Religious rituals, cultures traditions and also differentiate and segment the market.

(ix) Income – Differences in income along the population in any country. In India it is as diverse as from few hundred rupees a month to millions a month. In this scenario, the customers will behave differently in terms of wants as per their income.

**3. Psychographic Segmentation:**

It has been seen that two consumers with the same demographic characteristics may act in an entirely different manner. Despite having same age, from the same profession, with similar education and income, each of the customers may have a different attitude towards risk-taking and new product and stores.

This is because of the following psychographic variables:

(i) Personality – In segment markets marketers have used personality variables. They endow their products with brand personality that matches to consumer personalities.

(ii) Beliefs – It is a parameters of segmentation utilised by marketers to sell products. People according to their situation and bringing-up develop their own beliefs. For example, people develop religious beliefs as per the religion they follow. And their purchase behaviours are greatly influenced by their beliefs. Not only during festivals but in normal life also people with different religious beliefs develop different lifestyles and different behaviour as consumer.

(iii) Values – On the basis of core values some marketers segments i.e., belief systems that consumer attitudes and behaviour. Core values go much deeper than behaviour or attitude and determine, at a basic level, people’s choices and desires over the long term. Marketers who segment by values believe that by appealing to people’s inner selves it is possible to influence their outer-selves, their purchase behaviour.

(iv) Lifestyles – As lifestyle reflects the overall manner in which persons live and spend time and money it is considered as an important factor. It is behavioural concept enabling us to grasp and predict buyer behaviour. Lifestyle concept has interdisciplinary approach as it involves sociology, culture, psychology and demography. Lifestyle concept as a basis for segmentation is quite reasonable and desirable.

**4. Behavioural Segmentation:**

Based on buyer’s knowledge, attitude, use, or response to a product they are divided into groups. Many marketers have the trust that behavioural variables—benefits, occasions, user status, loyalty status, usage rate, buyers-readiness stage, and attitude are the best starting points for consulting market segments.

Buyer ‘readiness’ or preparedness is one of the important variables used for segmenting the market. At any given time, buyers are at different stages of readiness. There are unaware buyers, people who are aware but not interested, people who are interested and are desirous to buy and lastly, those who will positively buy the product.

*The major behavioural variables used by marketers to segment the market are as follows:*

(i) Benefits – The marketer identifies the benefits a customer looks while purchasing a product.

(ii) Occasions – Buyers / customer can be distinguished as per the occasions in which they purchase or use a product.

(iii) User States – A product is determined by the usage different groups undertake.

(iv) Quality Consumed – The quality consumed at a certain period serves as the basis of distinctions.

(v) Buyer-Readiness stage – Whether a consumer is ready or prepare to purchase also serves as the basis of segmentation.

(vi) Loyalty Status – The behaviour of customer that suggests their loyalty to brands.

(vii) Attitudes – At different stages of life, people have attitudes that determines their purchasing power that works as per their moods.

Bases of Market Segmentation – 4 Main Bases: Geographical, Demographic, Psychographic and Behavioural Segmentation

**1. Geographical Segmentation:**

In this type of segmentation, the market is divided on the basis of regions or areas like Nations, States, Cities, Towns, North, South, East, & West. Take for example, the world is a market, a mobile manufacturer may focus on the Asian Countries, further he may concentrate on the Indian market and further divide the Indian market into North, South, East and West regions.

The manufacturer may want to first start in the Southern region and concentrate on Karnataka, Bengaluru North Region.

**2. Demographic Segmentation:**

Segmentation can further be done based on demography (demographics is the study of Population). The market may be segmented into regions but the people residing in those regions will be of different age groups or gender, will have different occupations and education.

Therefore, it then becomes necessary to further group them on the demographic elements as follows:

a. Segmenting based on age

b. Education

c. Occupation

d. Income

e. Religion

f. Gender

g. Family size, and

h. Social Class etc.

Example:

A mobile phone manufacturer divides the region into North, South, East & West, he targets the Northern region and further divides the market on the basis on gender, income, occupation etc. Offers handsets to the respective groups based on their likes and preferences.

**3. Psychographic Segmentation:**

In this the market is segmented based on the psychology of the people, that is, the way people think and live their life, in other words it is the lifestyle of the people. Market may be divided based on demography, but it has been found out that, though people belong to the same demographic group, their thinking and way of living is different.

Example:

People belonging to the high-income group may live a simple lifestyle and prefer simple products. Therefore, a mobile manufacturer needs to offer luxury high priced mobile phones to this group along with reasonably priced low-end handsets.

Another example can be for clothes, women form a major group, but all women do not have the same lifestyle, some are fashionable, some prefer simple branded clothes and some prefer good quality unbranded and reasonably priced clothing.

**4. Behavioural Segmentation:**

In this type of segmentation, the market is divided into groups as per their behaviour towards the products. The behaviour relates to the frequency of usage, volume of consumption, loyalty towards the brand, behaviour during occasions like festivals, marriages etc. This type of segmentation is needed so that the marketer can gain advantage and satisfy the group in a better manner.

Example:

During festivals, certain group of people based on their religion purchase more products. Some groups use more of certain products and are frequent buyers, for example, dual income families may buy bread more frequently and maybe loyal to a certain brand.

**Bases of Market Segmentation – 5 Ways to Segment the Market**

The bases of market segmentation have gone a long way through different stages. It started with demographic segmentation, as the data was easily available. Then it moved on to Geographic segmentation, Geo-demographic segmentation, Psychographic Segmentation and Behavioural Segmentation.

Following is the five ways to segment the market:

Way # 1. Demographic Segmentation:

Demographic segmentation is most commonly used base for segmentation. The basis of the segmentation is age, sex, education, income, occupation, marital status, family size, family life cycle, religion, nationality and social class. All these variables are either used as a single factor or in combination to segment the market.

**(a) Age:**

Age is most commonly used basis, as the same age group people behave in the identical manner and will have identical needs. Marketers design, produce, package and promote products differently to meet the needs of different age groups.

For example, Colgate has different products for different age groups like Colgate Dental Cream and Colgate Kids Toothpaste. On the basis of age only, the leading toy manufacturer Fisher-Price has seven categories of toys based on the age right from Birth to 5 Months, 6 Months to 11 months, 12 months to 23 months, 2 Years, 3 Years, 4 Years to 5 Years and up.

On the whole, age can be broadly categorized in the following manner:

Infant: Newly born to 1 year

Child: 1 to 12 years

Adolescent: 12 to 15

Teens: 16 to 19

Youth: 20 to 35

Middle Aged: 36 to 50

Elders: 51 to 60

Seniors: 60 and above

Johnsons & Johnsons, JAM, Magic Pot, Aastha Channel, MTV are few of the examples on the basis of Age segmentation.

**(b) Income:**

Income has been a key driver in segmenting the market. It is based on the belief that the behaviour of the consumer changes with the changes in income. Many automobile, consumer durable, financial services, hospitality, apparels, cosmetics and travel companies segment their market on the basis of income.

Broadly, on the basis of income, market can be segmented as – Low Income, Low Middle income, middle income, upper middle income and high income. It has also been found that with the increase in income, the percentage expenditure on food and other basic necessities goes down.

C. K. Prahlad in his book ‘The Fortune at the Bottom of the Pyramid’ has talked about the marketing opportunities lying at the bottom of the pyramid i.e. Lower income segment. The success of Nirma, Ghadi, and 555 are examples of successful marketing at the bottom of the pyramid.

**(c) Gender:**

Gender differentiation forms a fundamental segment in the marketing, as the needs of male and female are very different. Clothing and apparels, cosmetics, magazines, shoes are few of the areas, where gender differentiation creates its own market. Axe, Raymond, Pulsar are the brands targeted towards male, while Scooty, Femina, Revlon, Titan Raga are the brands targeted towards female.

Few brands target both the genders like Reebok and Gamier, through their different products or through sub branding.

**(d) Occupation:**

Occupation is also an important variable in segmenting the market. The consumption behaviour of a working executive differs from a self-employed person or a blue collar worker or a businessman. In the same way, there are professionals like Doctors, Lawyers, Teachers, Professors, Chartered Accountants or Traders or Students or Shopkeepers or Housewives, whose consumption habits are similar in their segment.

Financial companies and banks like ICICI Bank, State Bank of India, Central Bank of India etc. regularly target these on the basis of their occupation with their different schemes. Recently State Bank of India has offered special benefits for its defense personnel customers.

**(e) Education:**

Education also played an important role in segmenting the market. Indian market can be classified as Illiterates, Literates, High School Pass-outs, University educated and professionally qualified people. The business of information like Newspapers, magazines, books etc. gets seriously affected by the education variable.

**(f) Marital Status:**

Being single or being married influences the behaviour patterns of the customers and thus it paves the basis for market segmentation. Unmarried people generally use more of fast food and packaged food than their married counterpart. Similarly married people tend to spend a lot on consumer durables, cars, travel plans and financial products.

Few businesses like Matrimonial websites, wedding management companies, wedding video and photographers are directly dependent on the status of marriage.

**(g) Family Size:**

Family size and structure is also an important variable in segmenting the market. With the passage of time and effective implementation of family planning measures, the average Indian family size is declining. Earlier there used to be at least 3 or 4 Children the family, which has largely gone down to two or even 1 in many families.

The social fabric of life is also changing, with more and more nuclear families than the joint families. It has led to the changes in the purchasing behaviour. Earlier, if you splurge, then there was a guilt feeling of spending money. But now you feel better off after splurging.

With easy credit availability and younger earning population with more nuclear families and singles living in metros and cities, a new segment has been created and the companies are cashing on it with their different product and service offerings.

Most of the malls in Gurgaon are doing brisk business, thanks to the large customer base among the single males and females working in the BPOs (Business Process Outsourcing). Right from the apparels to shoes to accessories to multiplexes, all have benefited largely in the post liberalization era with the changing family size and structure.

**(h) Socio Economic Status:**

According to Marketing Research Society of India (MRSI), the consumption behaviour of the consumer is determined by his / her social class, which refers to the occupation of the earning members of the family. Till April, 2011, MRSI had divided Indian population in the urban area in to eight socio-economic groups of consumers on the basis of the education and occupation of the chief wage earner of the household. These groups are SEC A1, A2, B1, B2, C, D, E1 and E2.

A1 and A2 include graduates, white collar workers and professionals and account for 9.5% of the population. B1 and B2 include SSC qualified as well as 40 % graduates, whose occupation is clerical or are shopkeepers and account for 17% of the population. C includes skilled workers, clerks, salespersons etc and account for 19.5% of the population. D again includes skilled workers, clerks, sales persons and account for 22.4%. While, E1 and E2 include unskilled labour and account for 31.6% of the population.

Till April, 2011, the Rural Indian Households are classified into SEC R1, R2, R3 and R4. In the rural classification, the parameters are education of the chief wage earner and the type of the house. SEC R1 includes population, who is graduate and having a pucca house, while R2 includes graduates with semi pucca house. R3 includes Graduates with Kuccha house and R4 include below SSC educated population with kuccha house.

Now, in a bid to keep pace with the fast-evolving economic outlook, consumer attitudes and preferences in the country, this system has been revamped on 3rd May, 2011 by the Media Research Users’ Council (MRUC) and the Market Research Society of India (MRSI) have unveiled a new Socio-Economic Classification (SEC) system.

The new Socio-Economic Classification (SEC) system is used to classify households in India. *It’s based on two variables:*

i. Education of chief wage earner and

ii. Number of “consumer durables” (from a predefined list)-owned by the family.

The list has 11 items, ranging from ‘electricity connection’ and ‘agricultural land’-to cars and air conditioners. These are:

Based on the above two parameters, each household are classified in one of 12 SEC groups—A1, A2, A3, B1, B2, C1, C2, D1, D2, E1, E2 and E3. These 12 groups are applicable to both urban and rural India. The top-most new SEC class A1 comprises of 0.5% of all Indian households.

Nearly 2% of urban households and less than 0.1% of rural households belong to the new SEC A1. More than half of all SEC A1 households reside in the top six Indian cities— Delhi, Mumbai, Kolkata, Chennai, Bengaluru and Hyderabad. At the other end of the spectrum, the bottom-most new SEC class E3 comprises of 10% of all Indian households. Only 2% of urban households and 13% of rural households belong to new SEC E3. Nearly 93% of all SEC E3 households are in rural India.

The formulation of the new SEC system has largely been done using the Indian Readership Survey (IRS) database. The developmental work has also used IMRB’s ‘Household Panel’ data. IRS is the largest survey of Indian households with a sample size of over 260,000— of this, roughly 175,000 are from urban India while around 85,000 hails from rural India. It was the sampling rigor and spread that led to the IRS being identified as the most appropriate database for the development of the new SEC Classification system.

Besides the above, religion, race, nationality and language are also the bases for segmenting the market.

Way # 2. Geographic Segmentation:

Geographic segmentation is the starting point and the simplest form of segmenting the market. Here, the market is divided into countries, states, regions and cities. For a large company like LG or Samsung, it is easy to sell the products across the country or many countries in the world; but a small player like Ghari Detergent, based in Kanpur, Uttar Pradesh needs to expand step by step in different regions of India.

Earlier MTR ready to eat food was sold in southern India only and then it expanded to all the other regions in India. A courier service like Vichare is only operational in Mumbai and its suburbs; but a university like Amity, is trying to expand its operations across India besides its main campus at Noida to Jaipur, Lucknow, Gurgaon, Mumbai and so on. Nirma was also started small by Karsanbhai Patel in 1969 from a small place called Kishnapur in Gujarat and then expanded to across India. This segmentation method helps the company to expand their markets on a logical basis.

Way # 3. Geodemographic Segmentation:

Based on the philosophy of ‘Birds of a feather flock together’, Geodemographic segmentation combines the geographic and demographic segmentation. It is based on the philosophy that consumers staying in the same area have got similar characteristics and needs. This kind of segmentation helps the companies to market their products efficiently.

For example, you will not find HUL’s Pureit water purifier priced at Rs. 2000/- and now Pureit compact at Rs. 1000/-, being sold in Colaba, Mumbai, but you will find the purifier selling in the areas like Goregaon, Borivali and Mira Road in Mumbai. It is all due to the presence of the respective market segment of Pureit in these areas in Mumbai.

Way # 4. Psychographic Segmentation:

It has often been found that people with the same demographic profile may act in a totally different manner. This happens due to the difference in their personality, lifestyle and values. Psychographics is the science of using psychology and demographics to understand the consumers better. Marketing researchers have tried to map individual lifestyle patterns to segment the market.

One of the famous methods of psychographic study is AIO Framework (Activities, Interests and Opinions). AIO framework explains the individual lifestyle patterns based on the activities, interests and opinions with demographic variables.

Personality is also an important factor in segmenting the market. Generally, the marketers try to project the brand personality, which imitates the target consumer personality. Once you hear about Nike (Athlete in all of us), Reebok (Success / Cricket), Levi’s (American, Real and Authentic, Rugged) and Shoppers Stop (Exclusivity, Individuality); it sounds you something.

The brand personality is also endorsed by the celebrity, whose personality matches the consumer’s persona. That is why Akshay Kumar advertises for Levi’s, M. S. Dhoni, John Abraham and Nargis advertises for Reebok and Yuvraj Singh advertises for Fiat Grande Punto; while you see a young couple in Tata Indica Vista ad. Though both – Fiat Grande Punto and Tata Indica Vista are targeting the same demographic customers’ profile.

Psychographic Segmentation can also be understood in American context through Sri Consulting – Business Intelligence (SRIC-BI) VALS (Values and Lifestyle) Model Framework. VALS is based on 4 demographic factors (Sex, Age, Education and Income) and 35 Attitudinal Questions (I am often interested in theories /1 like a lot of variety in my life /1 like to learn about art, culture, and history….) to profile the consumers.

The VALS framework divides the American adults into eight typologies under two categories – higher resources and lower resources. Higher resources include Innovators, Thinkers, Achievers and Experiencers and lower resources include Believers, Strivers, Makers, and Survivors. Although the framework is not very useful in Indian context; but it can give an insight and can be modified to suit the Indian environment.

Titan, the topmost watch brand in India, offers different watches under sub brands like Octane, Orion, Edge, Heritage, WWF Collection etc. to target the different psychographic customer base.

Way # 5. Behavioural Segmentation:

In the case of behavioural segmentation, the buyers are divided into different groups on the following basis:

I. Buyer’s purchase decision role

II. Product or brand usage

III. Occasions

IV. User status and

V. Usage rate

Based on occasions, the consumers can be divided into market segments. Archies has built their business based on occasional greetings. Kurkure is trying to sell more on Diwali through its gift packs. Cadburys is trying to associate its chocolates with the happy occasion and promoting it as a replacement of age-old traditional sweets.

ICICI Bank and other banks sell gold coins on the auspicious occasions like Akshay Tritiya, Diwali etc. On Valentine’s Day, a company like Ferns and Petals gets the highest order to deliver flowers across India.

User status also defines a market segment. Users can further be segmented into first time users, regular users, ex users, potential users, and non-users. In the different stages of family life cycle, a nonuser may turn into a first-time user and then it can become regular user.

For example, a kid may use Johnson’s Baby soap for the first time and can become a regular user for few years and then the baby can leave the usage and become an ex-user. On the other hand, potential user group are mother-to-be; who will buy the products relevant to their baby after a certain period.

Usage rate also helps to segment the market. Telecom companies like Airtel, Vodafone, Reliance etc. regularly segment their customers based on light, medium or heavy users for their services. In the case of cigarettes, the heavy users are very loyal to the brand, but in the case of beer it has been found that either the heavy drinkers are loyal or they look out for the lowest price. Consumers can also be segmented based on varying degree of loyalty.

George H. Brown has divided the brand loyalty status into four groups-Hard Core Loyal, who buy the same brand all the time; Split loyal, who are loyal to two or three brands; Shifting loyal, who shift from one brand to another and switchers, who show no loyalty to any brand. It has been found that in beer, toothpaste, cigarettes and in newspaper category, the consumers are highly loyal to the brand.

Buyer Readiness Stage:

In any market, the buyers are happened to be in different buyer readiness stage. It goes right from being unaware about the product to being aware about the product, and then progresses to interest in the product, to desire and then to the intention to buy the same.