

Relevance of Segmentation for Market Planning

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ular product or service is composed of customers with different expectations and/or different buying climates or situations. If these heterogeneous expectations and buying climates can be identified, then it is possible to develop specific marketing programs for each segment corresponding to its unique requirements. See Frank (1968), Kotler (1967), Smith (1956), Tweed (1970), and Lunn (1971) for other definitions. Later, we will describe the factors which determine the heterogeneity in buyer expectations and buying climates. It is sufficient here to state that positive and negative anticipations with respect to the same product or service may vary from segment to segment resulting in different buying expectations. Similarly, the situation or the climate in which buyers buy and consume may vary from one segment to another.

Segmentation is one of the four alternative strategies of market planning and analysis. As such, segmentation is not simply a set of analytical tools and techniques but rather a managerial philosophy or a viewpoint about the market place. The objective of this paper is to examine the relevance of segmentation to marketing problems. In the process, we will contrast segmentation with other strategies of market planning, specify conditions under which segmentation as a viewpoint is useful to marketing problems, and describe the specific marketing mix adjustments necessary to cater the market place in a segmented way.

Definition of Market Segmentation

The strategy of market segmentation refers to the conscious development and pursuit of separate marketing mix programs for essentially the same product or service but for different segments of the customers in the market place. The basic presumption in segmentation is that the market for a parti-

It is obvious from the above definition that the focus in segmentation is on the customer and his differential requirements rather than on the product and the underlying technology. This emphasis on the customer in segmentation analysis brings about the managerial objective of relating corporate profits to satisfaction of customers instead to just sales. In addition, the emphasis is to work backward from customer needs and requirements to the development of products in an integrated manner. Thus, segmentation by definition is an element of what Kotler (1967) calls the modern concepts of marketing.

The heterogeneity of customer expectations and buying climates, are however, only necessary but not sufficient conditions. It is not enough to simply find out by market research that market needs and requirements are different. In order for a successful implementation of segmentation philosophy, it is critical to examine the following two sufficient conditions:

lysis. They are (1) planned product innovations, (2) aggregate market responses, and (3) market responses, and (3)

is directly reciprocal to segment of market planning and technology-oriented concept. Initially introduce new products permits to generate market which is derived not only by demand for alternative sub- g additional demand in the "innovate or perish" behavior companies believing in Planned obsolescence has accept despite its popularity t, technology tends to be- lge among competing com- nerates intense competition le and resented by the con- rger airlines in the United obsolescence tends to ge- ers of new products which rejects as unnecessary con- l consumption activities. It big to find that more than ducts are introduced every . 65 percent of them fail to

market planning and ana- ing of market responses. In oncentrated on establishing r lows between the market- e and promotion, and the- hese efforts such as sales, assumed that the market

place is composed of homogeneous customers who deviate from the aggregate or average response systematically only in terms of the law of normal error. Thus, once the aggregate parameters of the relationship between marketing effort and market response are established, the marketing manager should attempt to optimize his scarce resources in light of this relationship.

The aggregate modeling approach received a great deal of impetus in the late fifties and early sixties from management sciences, operations research, and simulation techniques. See Montgomery and Urban (1969) for examples of aggregate modeling in marketing. Unfortunately, this approach to market planning has also proved limiting because (1) under- there are some very naive and unrealistic assumptions about human behavior in the market place, and (2) most of the models have tended to be normative rather than positive. Examples of such limited models can be amply found in the area of media allocations and new product introductions.

The third approach to market planning is the concept of product or market variety (Reynolds 1965). It is argued that instead of costly market research to obtain established consumer types, the company may be better off to simply produce sufficiently large variety of the same product or service, market them equally and let the market place decide which variety is more desired by the consumers. This is a shot gun approach in which the only limit is the technology of producing a variety within a product class. The concept has become very appealing in many industries where the heterogeneity of customers is known but identification of and communication to segments has proven futile. Thus, market variety is complementary to segmentation approach, and often one is mistaken for the other.

The shot gun aim in market variety approach, however, depends upon a number of factors to be successful. First, one must have enough ammunition to scatter throughout the market place, this is often limited to a very few large companies. Second, one must know the general direction in which the shot gun should be aimed. Often, this has either backfired or boomeranged to the detriment of the company. Finally, the approach is insensitive to changing requirements of the market place. For example, the United States automobile industry has missed several important opportunities for developing compact and subcompact cars despite providing a tremendous product variety in general.

None of these three alternative approaches to market planning are customer-oriented. The consumer's viewpoint is either only indirectly assessed as in market variety or relegated to other factors as in planned obsolescence and aggregate modeling. Segmentation, on the other hand, is directly based on the consumer's viewpoint. It, therefore, has a number of advantages as a market planning philosophy.

1. Perhaps the biggest advantage is to divest a company from its perceived role of an agent of negative social change. All of us have heard enough about how the company, by its persuasive marketing practices successfully sells goods and services not at all needed by the society. Furthermore, the company is presumed to resort to all sorts of deceptive advertising and promotion on mass media often even controlling the editorial content of those media. Whether there is any truth to these negative images of marketing, it seems market segmentation by being based on satisfaction of customer expectations should go a long way to minimize them.

2. Market segmentation is likely to result in savings of marketing costs because it is based on

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customer orientation. It is always more difficult and costly to persuade consumers to change their need structure in order to buy a product the company has produced due to technological breakthrough. We are all aware of the limitations of persuasive communication in changing (as opposed to reinforcing) existing values and attitudes; take the examples of population control and nutrition in most underdeveloped countries and the problem of pollution control in most advanced countries. Instead, it is much more economical to communicate the relative perceived instrumentality of a company's product for the present needs of consumers.

3. The customer-oriented concept in market segmentation eventually brings about a divorce between profits and sales (in which the latter is presumed to be the means to achieve the former). This divorce between profits and sales is probably more beneficial in the long run because we have relied too heavily in the past on the man-made laws of accounting and economics to the detriment of a company's survival.

4. The market segmentation approach to market planning and analysis tends to bring about a marriage between company's profits and customer satisfaction. This immediately brings out the tremendous importance of word-of-mouth communication that satisfied customers generate on behalf of the company's product or service. In most situations, word-of-mouth has proven to be the single most important factor in the successful communication in contrast to company's advertising and promotion.

5. Finally, it becomes less and less costly to maintain satisfaction among consumers who are loyal to the company than to continuously attempt switching customers from compelling alternatives. It is not at all uncommon today for some companies to drastically reduce their promotion budget and

very pleasantly discover that their sales or market share position have remained unaffected. Mostly this is due to buck of brand switching on the part of company's loyal customers.

A Framework of Market Segmentation

We must now examine how segmentation can enable the marketing manager to more effectively plan and allocate company's scarce resources. In other words, we must develop a typology of customers which directly provides implications for marketing mix decisions, especially in terms of selective and segmented communication about company's product offerings.

While there are numerous ways in which customers can be segmented, one major limitation of most segmentation analyses has been to relate the research to marketing mix decisions. For example, customers are segmented based on geographic, demographic, socioeconomic, attitudinal, behavioral, psychographic, and personality differences (Kotler 1967; Tweed 1970; Wilke 1971; Lunn 1971; Wells 1968; Huslad and Pessantier 1971; Frank 1968).

However, very few studies have extended themselves to the next step of providing specific recommendations about market planning. This has generated skepticism with respect to relevance of segmentation to market planning (Reynolds 1965). Furthermore, we still do not know which of the determinants are most useful in specific industries for developing good segments. In fact, there is considerable controversy surrounding each set of determinants. For example, Yankelovich (1964) and Frank (1968) argue against demographic and socioeconomic factors, and Wells (1966) argues against the personality factors. This controversy is, in my opinion, only partly based on problems of measurement, and more importantly on the fruitless attempts to directly link generalized social and personal factors to very spe-

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cific buying decisions such as the brand choice be-
havior.

On the other hand, today we not only possess
substantial knowledge about the consumer (e.g. see
Sheth 1967 for one review), but have also developed
comprehensive theories of buyer behavior (Nicosia
1966; Engel et. al. 1968; Howard and Sheth 1969;
See also Pelelemans 1971 for reviews). It seems, there-
fore, more fruitful to utilize this systematic know-
ledge on buyer behavior explicitly for its relevance
to market planning. I have attempted such a con-
ceptual framework. It is simple and rests upon two
fundamental factors. The framework is summarized
in Figure 1.

The first factor, from the market planning view-
point, is buyers' expectations about the brand. These
expectations represent the evaluations of the brand's
potential to satisfy some finite number of criteria
that consumers use to choose among brands. For
example, Volkswagen may be favorably evaluated
on price, economy of operation, service and resale
value. At the same time, it may be unfavorably eval-
uated on size, comfort, and sportyness. The basic
question from the market planning viewpoint is: Do
segments of consumers, however defined, vary in
their expectations? One would expect that if each
segment has a different set of choice criteria to eval-
uate the same brand or if the evaluations on same
set of choice criteria are different among the seg-
ments, the buyer expectations will vary among seg-
ments. In my opinion, it is irrelevant whether the
consumers are black or white, poor or rich, illiterate
or educated if their expectations are also corre-
spondingly not different. What are some of the major
factors which determine whether buyer expectations
will be different in different segments of the market?

It is my belief that the brand-specific buyer expecta-
tions are largely determined by the social environ-

ment in which consumers get conditioned to estab-
lishing choice criteria in specific buying situations.
Furthermore, it is the same social environment
which acts as a change agent in buyer expectations
over a period of time. However, a specific social fac-
tor is not likely to equally dominate in developing
buyer expectations in all buying situations; to the
contrary, the process of developing choice criteria
is presumed to be specific to each buying behavior.
Secondly, the same social factor may create different
expectations among various segments in one buying
situation and very similar expectations in some
other situations.

The four major social factors determining buyer's
expectations are (1) family, (2) social and organiza-
tional setting, (3) life style and social stratification,
and (4) culture including ethnic subcultures. It is not
within the purview of this paper to describe the pro-
cess by which these social factors shape buyer ex-
pectations. The reader is referred to Howard and
Sheth (1969) for a general discussion, and to Sheth
(1971) for a specific theory of family influences on
buyer expectations. In addition, Levy (1966),
Bourne (1963), Husted and Pessenier (1971), and
Kassarjian and Robertson (1968) are useful sources
for empirical evidence on the influence of these fac-
tors on buying behavior. I do wish to emphasize,
however, that buyer expectations are probably more
shaped by the consumer's social environment (past
and present) than either by his biological needs, his
personality or by the marketing efforts of the com-
pany.

The second factor in my conceptual framework is
called the buying climate. It refers to the specific
situation in which consumers make decisions to buy
and consume goods and services. It includes the eco-
nomic, demographic, and physical settings in which
buyers go about choosing and consuming products

there are similarities or differences among segments with respect to the buyer expectations or the buying climate or both. In figure 1, a four-fold classification is made based on the interaction of these two factors in a dichotomous way.

A. If the buyer expectations and the buying climate are the same between any two segments, the planning should be based on a common marketing mix program for both of them. In other words, no matter how we derived the two segments of the market, there are no differences between them to warrant separate and selective marketing programs. In the United States, there is a growing belief that many grocery products and some durable appliances should follow a universal marketing program because virtually there are no differences among consumers with respect to both the buyer expectations and the buying climate (Mayer 1963). In fact, this feeling of universal marketing is also prevalent in several companies which market their products on a multinational basis in most parts of the world. For example, the soft drinks industry follows virtually the same marketing program all over the world based on this concept of universal, undifferentiated market.

The universal marketing programs typically tend to be very attractive to marketing managers for a number of reasons. First, the cost of selective marketing activities is minimized so that the same amount of financial resources go a longer way. This cost saving phenomenon is, furthermore, not limited to simply promotion but is equally relevant to all the elements of marketing mix. Second, a simplified world is typically more preferred because it is a parsimonious world in terms of organizational communication, coordination and control; the chances of the Murphy's Law being operative are less than in a more complex world of segmented markets.

and services. The buying climate, therefore, may vary from segment to segment primarily due to the time and space environments surrounding the consumers. The buying climate factor is perceived either to inhibit or to facilitate manifestation of buyer expectations into purchase and consumption of a brand.

My own view is that there are four major factors which determine the buying climate specific to a product. They are (1) financial situation, (2) geographic environment, (3) consumption environment, and (4) time pressure experienced by the buyers. Although not invariant, these four factors are presumed to be stable and not randomly fluctuating from day to day. Furthermore, I think changes in these factors, whenever they occur, are abrupt and somewhat cyclical. Once again, it is not within the purview of this paper to describe the process by which these factors determine the buying climate. The reader is referred to Howard and Sheth (1969) for a review of the effects of financial status and time pressure on buying decisions.

Implications for Market Planning

What are the implications of these two factors for market planning? By market planning, we mean the allocation of resources among the elements of marketing mix. Even though I do not agree with the traditional classification of marketing mix in terms of the four Ps (product, place, promotion, and price), we will examine the implications of segmentation in terms of developing either universal or selective marketing mix for various segments in the market place. Furthermore, when a selective strategy is implied, we will attempt to isolate specific elements of the marketing mix which should be adjusted and adapted to the requirements of the segments.

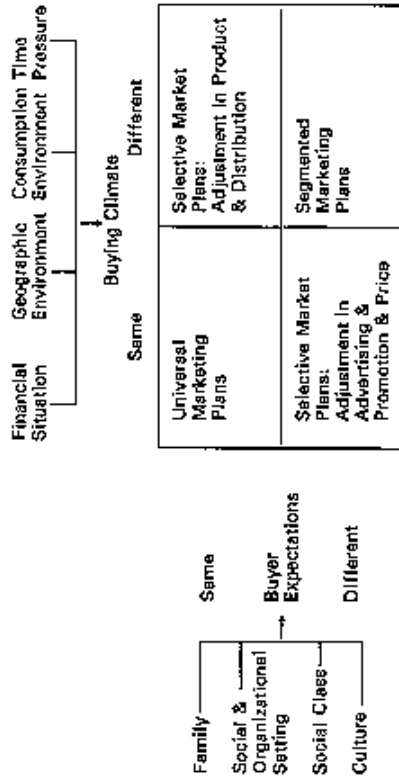
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Figure 1. A Conceptual Framework of Segmentation for Market Planning



B. However, it is not likely that all products and services have universal markets. Perhaps, the most common phenomenon is the one where the buyer expectations are the same but the buying climate is different between the two segments. In other words, consumer expectations are the same but the conditions in which they buy and consume are different with respect to economic, geographic, and demographic factors. A selective marketing mix is likely to be more effective in this situation. Furthermore, the adjustment in marketing mix should be with respect to the product and place (distribution) elements.

I. With respect to product adjust, there are several distinct possibilities. The most simple is marketing of the product in different packaging sizes. For example, the demographic factors such as

life cycle of the family, and number of children may create different buying climates between segments such that one segment is a heavy user of the product and the other is a light user of the same product. Similarly, geographic and economic factors may also produce differential buying climates between the two segments. This difference naturally implies distinct packaging sizes of the same product to fit the consumption cycles of each segment. Considerable research is available on the "heavy-halt" theory (today (Twealt 1964; Massy, Montgomery, and Morrison 1969) which may prove directly useful for this type of product adjustment. The relevance of packaging sizes is perhaps most dramatic in international marketing. Many companies are forced to package differently in under-developed

countries; for example, chewing gum and cigarettes are packaged and sold in single units in many under-developed countries because the buying climate is considerably different. In a more subtle way, the buying climate also requires most companies to introduce new products in at least two sizes.

A second type of product adjustment desired due to different buying climates among segments is product variety. Often, the same product is consumed by people at different places and occasions in which the surrounding environment necessitates some difference in the buying climate. For example, the second and the third television sets within the family require a different type or variety. Similarly, packaging variety is required when people consume the same product outside the home in contrast to in-home consumption. In this type of adjustment we include all the packaging varieties be it with respect to color, shape or design.

A third type of product adjustment is with respect to the intrinsic quality of the product. Although buyer expectations are the same the financial factors often necessitate marketing of different qualities of the same product. This has led to the availability of durable appliances such as automobiles, radios, and television sets which vary considerably in quality. Kindly, geographical and other factors often necessitate product changes even though the image of the product remains the same. For example, detergents and gasolines are varied with respect to their physical attributes due to climatic requirements. Similarly, the recent safety requirements in the United States are bringing about changes in the automobiles exported to that country.

2. The adjustments in distribution of the product

due to different buying climates among segments are many and at the same time obvious. Most of the recent innovations in retail merchandising such as the supermarket and other self-service outlets, the mail order houses, and the automated merchandising are some of the obvious examples to cater to different segments of the market although the buyer expectations are the same. A more subtle aspect of distribution adjustment relates to separating the institutional buyers from the households. It would appear that this type of marketing mix adjustment is likely to be more effective in service industries such as passenger airlines or health care industries.

C. A more fascinating situation is the one where the buying climate is the same but the buyer expectations are different among the segments. In fact, more and more recent research in market segmentation seems to be focused on this combination (Yankelovich 1964; Haley 1968; Nelson 1969; Wells and Tigert 1971; Husted and Pessemier 1971). In my view, the primary candidates for adjustment in this combination are advertising and promotion, brand imagery and price among all the elements of marketing mix.

I. With respect to advertising and promotion, there are several distinct possibilities of marketing mix adjustment. First, we know by now that buyer expectations vary considerably with respect to the performance of, and perceived risk in, certain brands. These differences in buyer expectations have resulted in differential proneness of consumers toward promotions including deals and premiums. The whole area of deal proneness has become, therefore, important to do marketing research on it. This has led to recommendations with respect to selective promotional effort to various segments of consumers. For example,

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consumers living in metropolitan areas or who
are non-white are typically found not to be deal
prone consumers.

The second area of adjustment with respect to
advertising and promotion relates to selective
media choices matching the segments. Different
buyer expectations are likely to be correlated
with different media exposures, preferences and
habits (Sheth 1971). Although, there is no direct
evidence as yet to support this statement, recent
research on distinct media habits of different
psychographic segments seems to be a useful
corollary to this statement (Bass, et. al. 1969;
King and Summers 1971; Tigert 1969; Bruno,
Husted, and Pessemier 1972).

The final, and probably the most important,
possibility of adjustment in advertising and pro-
motion is presentation of different product ap-
peals and brand imagery to different segments
which have distinct buyer expectations. The
most obvious examples come from industries
such as cigarettes and automobiles due to the
nature of monopolistic competition. There are
artificial packaging differences usually accom-
panying this type of marketing mix adjustment.
Indeed, a number of basic innovations have
proved so useful that the same concept is mar-
keted differently in different segments. For
example, instant breakfast is marketed as a sub-
stitute of cereals, as a dietetic product in place of
lunches or dinner, and as a supplemental in-
between meal snack food. In multinational
marketing, even the packaging differences are
not needed. Bicycles, for example, are promoted
as durable and convenient vehicles for com-
muting purposes in most under-developed
countries but as sports and Summer fun product
in many advanced countries. Similarly, tea may

be a national drink in one country whereas, a
medicinal remedy in some other country. Often
we find that the same durable appliances are
marketed as necessities in some countries and as
conspicuous consumption items in some other
countries.

3. A second element of marketing mix which should
be adjusted when buyer expectations are dif-
ferent is pricing. Often the buyers use an accep-
table price range to reflect their values and ex-
pectations in specific decisions. This in return
has led to the phenomenon of price-quality rela-
tionship in several product categories. It is, there-
fore, possible to market essentially the same pro-
duct at different price levels to match different
buyer expectations. Outside of the U. S. and Ca-
nada, cigarettes are a good example of this type
of adjustment. Also, most regulated industries
such as the telephone industry, are allowed price
discrimination in order to match differential
buyer expectations.

D. Finally, there are numerous situations especially
in consumer durable goods, where segments have
different buying climate and different buyer expec-
tations. Most of the marketing research in the seg-
mentation area presumes this combination of dif-
ferent buyer expectations and different buying cli-
mate among groups of consumers. It should, how-
ever, be pointed out that market place may not ne-
cessarily be so complex in all buying situations.

When both the buying climate and the buyer ex-
pectations are different, the effective strategy is the
development of distinct marketing mix programs in
which all the elements are adjusted or segmented. In
other words, product, distribution, promotion, and
price are systematically varied to meet the unique
requirements of each segment. This, in short, tant-
amounts to marketing "separate" products even

though manufactured in the same way. The examples are too many to cite. In general, we should expect that when the buyer expectations and the buying climate are different with respect to a specific industry, the strategy of distinct types of products and services will prove very effective. Examples of such distinct types are coffee (regular, instant, freeze dried, espresso, etc) and automobiles (economy, compact, subcompact station wagon, convertible, personal luxury cars, etc).

Concluding Remarks

In concluding this paper, I would like to point out the following things in order that we may increase the credibility and actual use of market segmentation philosophy in market planning:

1. It is absolutely essential to extend market segmentation research in terms of explicitly suggesting implications for marketing planning and strategy. The specific discussion in this paper is only a viewpoint. Furthermore, this extension should not be left to the marketing managers but rather provided by the marketing researchers.

2. The closer we bring whatever determinants we

settle on to the specific brand choice behaviors the more fruitful will be segmentation analysis. I think the controversy with respect to usefulness of determinants such as personality, social class, and demographics is mostly due to attempts to link very generalized concepts to very specific buying behavior. In other words, a bigger problem than that of measurement and analysis is the relevance of these generalized determinants to buying behavior. Since the objective of marketing management is often to study specific brand choice behavior, it seems imperative that we develop specific sets of determinants. In other words, we need theories to link generalized determinants to specific market behavior.

Finally, I am somewhat skeptical of the efforts in segmentation analysis which directly link a set of determinants (generalized or specific) to buying decisions. What seems to be urgently needed is a set of mediating variables between these determinants and buying behavior. In this paper, I have chosen two such variables — buyer expectations and buying climate — to suggest the type of mediating variables which may prove to be extremely useful.

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