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# UNIT 5 MARKET SEGMENTATION

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## Objectives

The objectives of this unit are to help you to understand:

- the **concept** of a market,
- the **concept** of a segment,
- how **market segmentation** differs from product differentiation, and
- **bases** for segmentation and how should a firm select its segments

## Structure

- 5.1 Introduction
- 5.2 The Concept of a Market
- 5.3 The Concept of a Segment
- 5.4 Market Segmentation versus Product Differentiation
- 5.5 Benefits and Doubts about Segmentation
- 5.6 What is grouped in Forming Segments?
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## 5.1 INTRODUCTION

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All corporate marketing activities have to be necessarily carried out in such a way that they lead to generation of surplus funds. Even in case of non-profit and non-manufacturing set-ups, it becomes important to achieve marketing goals in the most economical way. This is so primarily because of budgetary constraints in such organizations. One of the ways to obtain economies in marketing is to concentrate and focus the marketing effort in respect of a well defined homogeneous cluster of potential customers. This approach known as market segmentation helps in optimizing the marketing mix for a segment. In this unit we will introduce the concept and bases for market segmentation.

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## 5.2 THE CONCEPT OF A MARKET

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Unless you know the exact market(s) to which your organization wants to cater, your focusing will be wrong and your planning will be faulty and you will fail to develop an appropriate marketing strategy or effort to meet the needs of your target market. To identify the target market let us first define the term 'market'. The term market has more than one meaning:

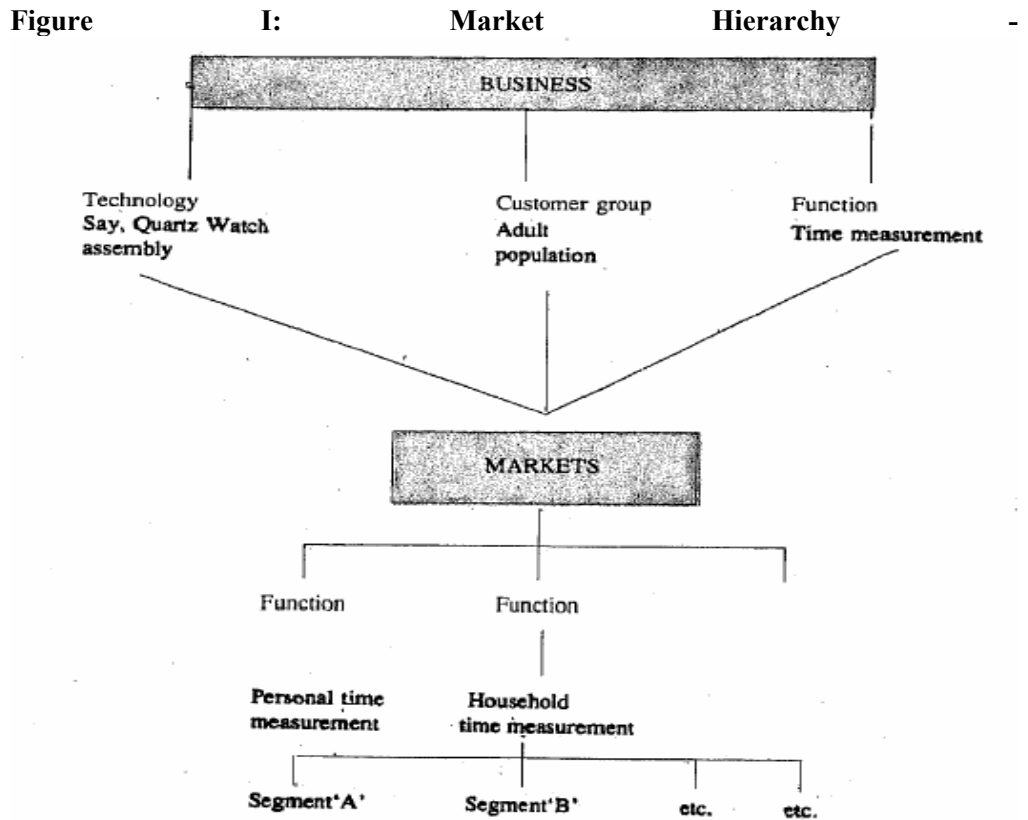
- It can be used in respect of the network of institutions like wholesalers and brokers dealing in a product;
- It can also be used to refer to the nature of demand for the product, as when we speak of the market for soap;
- The two meanings are related but are physically distinct. Related because without the wholesalers and other institutions, it will be difficult to serve customers (demand).

In this unit we are concerned with a 'market for' a product. The **market for** a product relates to the **function(s)** served by the product. And the other products that are in competition with it.



But we can define functions broadly or narrowly and on this would depend how widely or narrowly we wish to define competition for our particular purposes. Suppose ours is a passenger bus transport company and we say that we are in the business of transportation i.e., moving people from one place to another, then we are in competition with the airline, ship and rail, the other important modes of transportation. As against this, if we say that we are in the business of 'transportation by road' we are defining our function more specifically and in that case we are in competition with other passenger bus transport companies:

Another question which arises is: Does the definition of a market in terms of function(s) served links the definition of a market to the definition of the firm's business? The answer is 'Yes'. A 'business' is defined in terms of technology, customer group and Function(s) served. The overall linkage may be depicted as in the figure below:



A market can also be defined in terms of generic need. By generic need we mean the basic need like the need for catering to hunger and thirst or the need for transportation.

Then the question arises : Is the definition of a market in terms of function served and the definition of a market in terms of generic need essentially the same? The answer according to Levitt is 'yes'. The following are some examples:

Product	Generic Need
Film Industry	Entertainment
Television	Entertainment

**Activity A**

Write out the generic need in the case of the following products.

Product	Generic Need
a) Cosmetics	.....
b) Elevators	.....
c) Mini-calculators	.....
d) Edible Oil	.....

**Answer:** (a) Hope for looking good, (b) 'Need' for vertical transportation within buildings that is convenient, fast and safe, (c) 'Need' for a portable device to make speedy and accurate calculations without cumbersome manipulation, (d) energy.

Levitt, in a classic article, claims that the film industry failed to recognise that it catered to the generic need for entertainment and as a consequence failed to take cognizance of the likelihood of competition from television. It thought it was in the movie business when it was actually in the entertainment business.

Therefore, defining a market in terms of generic need not only defines competition but also helps a firm to avoid entering a market segment without first considering the wider range of possibilities available to it.

However, there are some problems that are encountered in using **generic need** to define a market.

First, the word 'need' is ambiguous as there is no accepted list of human needs.

Second, the assumption probably made by Levitt is that there is only **one** market for a firm's product or that the many needs that might be served by a product will always reflect some high level need. This may not always be true.

**For example**, consider the generic need served by the postage stamp. There is the market which is related to the transportation and delivery of mail and there is also the market related to the philatelist's motives. Both these markets cannot be embraced under one generic need.

Take another **example** of film industry as used by Levitt. Would it always be best in your opinion to regard the film industry as catering to the generic need for entertainment? The answer is 'no' for there are many rival claimants. **It all depends on our purposes.** One claimant might be the generic need to occupy **leisure hours**. In that case, probably, entertainment will be its sub-category.

Third, defining a market in terms of generic need is not a sufficient condition for identifying competition. This is so because products can serve the same generic need without being in competition, e.g., sundials and watches. They both cater to the same need i.e., to measure -time, without competing with each other. Another **example** is of coffee and soft drinks as they both could be thought of as serving the same generic need for beverages. However, it is a matter of **empirical investigation** to find out whether these products do in fact serve this need.

The definition of the market in terms of function(s) served does not, however, eliminate the necessity of defining our purposes, using judgment and undertaking empirical investigation to determine how broadly to define the function(s) of interest. **In fact, the products that serve different use-functions serve different markets, and different use-functions attract different competitors.**

### Activity B

How will you define the market in the case of the following products?

- a) 'Boroline' .....
- b) 'Godrej Typewriters' .....
- c) 'Modern Bread' .....
- d) 'Luxor. Pen' .....
- e) 'Amul Butter' .....

## 5.3 THE CONCEPT OF A SEGMENT

The previous discussion must have helped you to understand the relationship between market, product and function. On the basis of market definition given earlier we can reiterate that buyers in the same market seek products for broadly the same function. But different buyers have different evaluative criteria about what constitutes the right



choice for performing the function. As a consequence different offerings will attract different buyers.

**To illustrate**, all brands of coloured television sets will appeal to some degree to those in the market for a coloured TV but some brands will appeal to some groups more than others. But, if there were only one brand of coloured TV set, there will be no choice for the buyers. But as the market develops, manufacturers seek to cater more closely to some groups than to others and buyer choice widens as a result.

At the most detailed level every buyer is a market in himself for every buyer's 'want' is probably distinct in some way. But on the basis of similarities and differences, such unique wants can be grouped into sub-classes. What it means is that wants within a sub-class are more related to each other than wants between sub-classes.

Based on the above discussion you can now attempt to explain **market segments** and the **process of market segmentation**.

**Market segments** refer to the sub-classes of the market reflecting sub-classes of wants and the process of conceptually distinguishing segments is known as the **process of market segmentation**.

### **Relationship of a segment to a market**

To put it differently a market segment consists of buyers who seek (occasionally or often) the same aspects of a product. And the concept of a market as a set and a segment as a subset is the basis on which the process of segmentation is carried out.

But the relationship of a segment to a market is also one of means to goals. The implications of this relationship are:

- Since means for accomplishing goals can be varied, different segments of a market may demand radically different substitutes (for example, electric razor for a safety razor)
- Since the function distinguishing a market is a means to some higher-level function that can be served by a variety of markets, there can be mobility of buyers among the several markets which may result in instability in any individual market (for example from 'movie' of the film industry to 'entertainment' where TV competes with the film industry)
- Since choice is exercised by people within the context of what is available, the buyers are not necessarily satisfied with what they buy meaning thereby that a possibility always remains of designing an attributes mix better suited to the segment.

We can say that buyers within a segment are more homogeneous in their market wants when compared to those who are in the market at large, but differences will always remain in wants among those within a segment notwithstanding this similarity. What it means is this that a marketer can always achieve additional homogeneity by subdividing the original set of segments further until, theoretically speaking, we have segments to which only one buyer belongs.

The question that arises is how far the process is carried towards this end. The answer will depend on:

- the commercial viability of small segments, and
- the competitive practices of rivals.

Now what a marketer should do? He may ignore the differences and treat the segment as a homogeneous segment, or he may take account of some of the differences in product variety, promotion and distribution and segment the market on that basis.

So segments will be distinguishable on the basis of such differences, In other words one will be able to distinguish one segment from another on the basis of what segment members have in common in respect of what they seek from a product. However, since consumer wants keep on changing with the passage of time, segment wants would also change in time necessitating the manufacturer to adapt his offering without necessarily affecting the definition of the core want.

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## 5.4 MARKET SEGMENTATION VERSUS PRODUCT DIFFERENTIATION

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We hope you have now understood what we mean by market segmentation. Let us define it also.

**Market segmentation** may be defined as the division of a market into groups of segments having similar wants. But wants must be interpreted very broadly, in terms far broader than product characteristics only. Segments may differ also in their needs for information, reassurance, technical support, service, promotion, distribution, and a host of other 'non-product' benefits that are part of their purchase. They may also differ in their capacity to pay for these differences.

Economists view a product as differentiated if it is preferred by some buyers to similarly priced rival brands on the ground of differences in the following:

- physical aspects of the product
- services offered
- convenience in using or buying the product
- image projected.

If you analyse the above view put forward by economists you will reach the conclusion that all segmentation except segmentation involving price alone entails differentiation.

But it does not mean that the two are the same. For segmentation involves more than what is achieved through product differentiation. In market segmentation the aim is not merely to divide the market into sub-classes based on product differentiation but to distinguish want-categories that correspond to the distinct demands of various groups in the market.

So we can say that in **product differentiation** the marketer produces two or more products that are different in terms of features, styles, quality, sizes and so on. The objective here is to offer variety to buyers rather than to appeal to different market segments.

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## 5.5 BENEFITS AND DOUBTS ABOUT SEGMENTATION

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We will now try to describe both the benefits and the doubts that arise from the strategy of market segmentation.

First, we will highlight the benefits from segmentation and these are:

- segmentation helps a company to exploit its market better by selecting **market niches** (suitable segments) that are compatible with its resources
- segmentation helps in focusing strategies more sharply on target groups
- segmentation is more likely to result in instilling customer 'loyalty' since the firm's offering is better matched to those in the segment.

### **Doubts about effectiveness of segmentation**

The discussion that follows concentrates on the doubts which have been expressed on the effectiveness of segmentation.

#### **Are segments mutually exclusive groups?**

Remember, segments are not mutually exclusive customer groups. What we are exactly grouping is 'anticipated orders' from buyers, not buyers themselves. To assume that he or she is in one segment and one segment only, is to assume that the circumstances are so constant that use-functions and generated functions remain fixed. What we are really trying to emphasise is that the same consumer may appear under different descriptions for different segments.

**To illustrate:** Forhans and Colgate toothpastes differ and seem aimed at different segments, but the same people may buy both of these. The fact that the same people buy both of these products does not in itself imply the absence of meaningful



segments. Products in different

segments of the market may be bought by the same buyer for different family members, or for different occasions, or just for variety, etc.

### **Is segmentation merely on the basis of different product forms?**

It is not right to say that segmentation is merely done on the basis of different product forms. Although this is what usually happens. But segmentation can be on other bases as well like distribution, price, promoted image, etc.

### **When insignificant differences exist between brands**

What happens in a situation where markets are not heavily segmented or where the differences between products are marginal?

In a situation like this, one can't help saying that not much purpose is served by segmentation. In other words in a situation where insignificant differences exist between brands segmentation is not a feasible strategy.

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## **5.6 WHAT IS GROUPED IN FORMING SEGMENTS?**

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One of the problems involved in segmentation is to know what precisely is being grouped to form segments. As far as consumers are concerned they are not mutually exclusive categories, for people may buy cigarettes today and pipe tobacco tomorrow. But since classes should be mutually exclusive by and large, what precisely is that which we are grouping into segments? The answer is that we are grouping **buyers' probability of purchasing different types of offering.**

But for effectiveness of the segmentation strategy it is necessary that a marketer must describe its segments both in terms of what is wanted and who is likely to buy it. In other words, we must define the configuration of **benefits** sought and also draw up a **profile** of those in the segment that distinguishes them from the members of other segments.

A good, practical approach for gathering comprehensive knowledge about what is wanted and who is likely to buy it is to ask yourself questions such as:

### **What**

- benefits does the customer seek?
- factors influence demand?
- functions does the product perform for the customer?
- are the important buying criteria?
- is the basis of comparison with other products?
- risks does the customer perceive?
- services do customers expect?

### **How**

- do customers buy?
- long does the buying process last?
- do various elements of the marketing programme influence customers at each stage of the process?
- do customers use the product?
- does the product fit into their life style or operation?
- much are they willing to spend?
- much do they buy?

### **Where**

- is the decision made to buy?
- do customers seek information about the product?
- do customers buy the product?

### **When**

- is the first decision to buy made?
- is the product repurchased?



### Why

- do customers buy?
- do customers choose one brand as opposed to another?

### Who

- are the occupants of segments identified by previous questions?
- buys our product, and why?
- buys our competitors' products, and why?
- When asking questions such as these you should keep in mind the following points:
- the list of questions is only suggestive, you will have to review it to suit the specific situation;
- you will have to collect the necessary data to supply the answers.

You will have to relate the answers to the decision at hand. To **illustrate**, it is not sufficient to find out where the consumer buys this product? The answer will have to be related to decisions that you have to take say with respect to channel, advertising, packaging etc.

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## 5.7 BASES FOR SEGMENTATION

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After you have gathered comprehensive knowledge about what they want and who is in the market, you have to tackle another important criteria for grouping the buyers into segments.

For this we might take the following approach:

- listening to what those in the market say, for example, about their preferences;
- studying what those in the market are-for example, their demographic characteristics;
- studying what those in the market do-for example, their life style.

The different bases for segmentation put different emphases on what people in the market SAY, ARE, or DO.

### Benefit segmentation

In benefit segmentation you segment the market on the basis of what people **say** or the benefits they seek from the product.

Yankelovich applied benefits segmentation to the purchase of watches. He found that buyers bought for **lowest price** (23%), **durability and general product quality** (46%), and as **symbols of some important occasion** (31%).

One of the most successful benefit segmentations was reported by Russell Haley who coined the phrase benefit segmentation. According to him the oral hygiene (toothpaste) market can be divided into four distinct benefit segments depending on which of the following is sought:

- flavour and product appearance
- brightness of teeth
- decay prevention
- low price.

Once we have categorised those in the market on the basis of the benefits they seek, they can be identified by what they **are** (demographic characteristics) and what they **do** (behaviouristic and psychographic characteristics). **For example**, in the Russell Haley study the brightness of teeth seekers were young people in their teens with a personality disposed towards high sociability and an active life style. Similarly, decay prevention seekers had large families, were heavy toothpaste users, and were conservative. Each segment also favoured certain brands.

Thus, benefit segmentation requires:

- determining the major benefits that people look for in the product class., like intrinsic preference, for example, taste, level of performance, snob appeal, price, reputation etc.
- the kinds of people who look for each benefit, and
- the major brands that deliver each benefit.



## Demographic basis

Instead of focusing on the differences in benefits sought, you might divide people in the market on the basis of demographic variables such as age, sex, family size, income, occupation, education, location, religion, race and nationality. Demographic variables are the most popular bases for distinguishing customer groups. You should use such variables to infer the likely variations in what is sought.

### Activity C

Please suggest products that you would segment on the basis of demographic variables.

Demographic variable	Products segmented on demographic basis
a) age	.....
b) sex	.....
c) family size	.....
d) income	.....
e) occupation	.....
f) Education	.....
g) geographic location	.....
h) religion	.....

**Suggested Answers:** (a) Toys (b) clothing, hairdressing, cosmetics, and magazines (c) soap and detergent powder (d) cars, clothing, cosmetics, and travel (e). will vary with the nature and status of occupation (f) books, newspapers and magazines (g) household services, land and immovable property (h) food, clothes and gift items.

Some special types of demographic groupings, viz., social class and family life cycle will now be explained.

#### Social class

Demographic variables can be combined to form social classes. Social class is defined in terms of a number of demographic variables varying from a single indicator like occupation to the use of a combination of factors like occupation, source of income, type of home or residential area. Social class has a strong influence on the person's preferences in regard to clothing, home furnishings, leisure activities, reading habits, and so on,

#### Family life cycle

Another basis for segmentation that draws on demographic factors is family life cycle, where each stage in the cycle is a combination of age, marital status and age of children. A household with a young family tends to have different wants from an older married couple whose family is grown up. One family life cycle is:

- young single people, not living at home
- young married, no children
- young married, youngest child under six
- young married, youngest child six or over
- older married, with dependent children
- older married, no children living at home
- older, single

#### Psychographic basis

You can also segment the market on the basis of life style or mode of living. This helps you to understand what those who are in the market do. Some of the products where life style approach has been used for segmenting the market are cars, women's clothing, cigarettes, cosmetics, alcoholic beverages and furniture. Volkswagen, for example, has designed life style automobiles: a car for 'the good citizen' emphasizing economy, safety and ecology; and a car for the 'car freak' emphasizing handling, maneuverability, and spottiness.





## Activity D

Please suggest suitable life styles that a marketer may use in the case of the following products:

Men's clothing

Motor cycles

Soft drinks

Tea

(For example for men's clothing you may distinguish between plain and fashionable men; for motor cycles between rural and urban buyers; for soft drinks between traditional and modern users; and for tea between working and non-working women.)

## How to use psychographic basis?

For using psychographic segmentation you will have to collect data for developing a profile of the consumer. One life style approach that has been developed uses psychographic data concerned with the activities, interests and opinions (called AIO inventories) in addition to the demographic variables of those in the market.

Consider the following example:

Activities	Interests	Opinions	Demographics
Work	Home	Social issues	Age
Hobbies	Job	Politics	Education
Entertainment	Community	Education	Income
Clubs	Food	Culture	Occupation
Sports	Media		Family size
Shopping			Dwelling
			Geography
			Stage in life cycle

In using the above approach the researcher must have consumers respond to a number of AIO statements and then use statistical techniques to group the AIO statements into similar categories. The grouping permits the marketing analyst to produce a more relevant profile of those who are in the market, say of users and nonusers.

**For example** one such marketing study portrayed the user of eye makeup to be younger, better educated, and more likely to be employed outside the home. Further, they were more fashion conscious, cosmopolitan, and future oriented than non-users. Thus, the marketing strategist has established that the use of eye makeup is a part of a consistent behavioural pattern' that provides valuable information input for media selection and advertising content decisions. Furthermore, the market strategist can use such information to identify likely users of related products, that is, other products that are consistent with that life style.

## Personality variables

Besides AIO inventories and demographic variables we also use other variables in segmenting a market on a psychographic basis. These are variables that help in producing a more relevant profile of the consumer. The most commonly used variables of this type are personality variables.

Self-image is one aspect of personality that may relate to buyer behaviour. Some marketers use this approach to endow their product with brand-image that corresponds to self-image of the consumer. In fact, the assumption that buyers seek a match between self-image and brand-image is implicit when advertising appeals to certain types of personality.

Some other important personality variables that may be used in psychographic 'segmentation are: impulsiveness, sociability, achievement orientation, masculinity, self-confidence, conservativeness, prestige consciousness, alertness to change, thriftiness, and sentimentalism.

## Other bases

There are some other important bases also that you need to know besides the ones which we have already discussed.



**Usage rate** is one of them and is sometimes used as a dependent variable with demographic or personality variables used as its predictors or independent variables. The aim is to identify the 'heavy users' so as to focus directly on their wants and to appeal to them directly. Soft drinks and cigarettes are two important products where this approach is used. To explain, it is the younger group which falls in the category of heavy users so far as the soft drinks market is concerned. The main attempt of the companies selling this product is to focus on this group and to appeal to them directly.

Another basis is **brand-loyalty**, with companies making direct appeal to the loyal user. Some important examples are the toothpaste market, the beer market, and the cigarette market. Companies selling in a brand-loyal market have a hard time gaining more market share. Similarly, companies that enter a brand-loyal market have a hard time getting in.

#### **Which of the above bases is the best?**

Now try to think which of the above bases viz., benefit, demographic or psychographic is the best for the marketer. You will find there is no simple answer to this.

**Benefit segmentation** would seem the most direct approach and the most customer oriented, but benefits sought may not be easily identified. Besides, as a market matures, the major functions may be taken for granted because by that time all the firms would be at the same level of performance and minor benefits become the basis for choice.

**Demographic variables** often correlate positively with purchase behaviour. Although it is obvious that expenditure on luxury products will positively correlate to, say, income, demographic variables as a whole have not been highly predictive of brand purchase. **Psychographic** variables for consumer products offer more promise.

**The other two bases were usage rate and brand-loyalty.** It is the **heavy users** category which is important so far as the usage rate is concerned. The question that needs to be answered is whether the heavy users within a market make distinct demands and so might be treated as a segment. When you appeal to them as a group you are assuming that they are responsive as a group to a certain type of appeal, for example, use of lower prices so far as the use of detergents by large families is concerned, or that, if appealed to directly, they will come to regard themselves as a group with a distinct set of wants. But there is no reason to assume why the heavy users in a market should necessarily be predisposed to respond to the same market strategy.

The same arguments as those discussed above in the case of heavy users will apply in the case of those who are **loyal** to some brand.

#### **Segmentation in industrial markets**

You might assume that the bases for segmentation will differ between industrial and consumer markets. However, they have much in common i.e., industrial markets can be segmented with many of the same variables used in consumer market segmentation.

Segmenting markets on the basis of end-use application is essentially benefit segmentation; a demographic basis is geographical location; while a behavioural basis is the way the company buys. As knowledge of industrial customers advances, segmentation can take account of the buying criteria, technical, economic, etc., as applied to the selection of suppliers. Of course, where customers are large buyers with very different demands, each of them may be regarded as distinct segments to be approached by individually tailored strategies.

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## **5.8 HOW IS THE BASIS FOR SEGMENTATION SELECTED?**

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Before selecting a basis you must arm yourself with substantive knowledge about the buyer. The basis selected should be such that it evokes a sufficient purchase response to justify cultivating that segment. Remember, if it were easy to identify the various mixes of benefits sought by the various groups in the market, segmentation would hardly present any

problems. In that case the various groups would constitute potentially different segments. But the major problem lies in determining what benefits the prospective buyers are seeking and what is the relative ranking of these benefits that discriminate various buyer groups in *the market*. To illustrate. *how does one discover that consumers discriminate among say toilet soaps on the basis of price. image. cosmetic power. size, packaging, hygienic effect. smoothness. freshness, etc., and also what relative weights they assign to these variables.*

Another problem that arises is that consumers are not actively seeking what they would buy if it were available. What it really means is that we are all open to new offers and in the process our preferences may 'change.

### **Methods that companies use**

*As such there is no standard answer to what basis is the best in a particular case and companies resort to one or more of the following:*

**Intuition and experience:** Many marketers try to segment their market on the basis of their empathetic understanding of the situation. But they must not forget to check such intuitive thinking against the evidence which may be there in support of such hypothesis.

**Trial and error:** *Trial and error is another method which is used to divide a market into different groups based on product attributes and to subsequently check whether such groups are proving meaningful in terms of market response.*

**Research on consumption systems:** Observing and studying the total consumption system associated with the product in use helps generate new ideas for benefit segmentation. (The consumption system refers to the total situation in the context of which the product is used. it helps in understanding the specific use context, applications and usages of that product.)

**Research on attitudes and perceptions:** This is an area in which there is currently the greatest interest. This type of research is being used. in respect of quite a few of the consumer products that are being introduced by large-sized companies in India. Perceptual **mapping** is one technique which is used for such research.

There are two approaches which are used for breaking up a market either from the top down or from the bottom up. If we use the top down approach called **logical** division, we start with the market and break it down into more and more refined markets or market segments. As against this if we follow the bottom up approach called ordering, we start with the individual consumers and group their likely wants into segments.

### **Logical division**

As stated earlier in logical division it is the top down approach which is followed. We divide the market into dichotomous sub-classes based on product, offering or customers:

**Demographic sub-classes, for example,** are divided into social classes. stage in life cycles or psychographic sub-groups (for example, AIO/personality) etc., from which we infer likely benefits sought. If what is being "sought in each sub-class differs with the description of *who is in each* sub-class, *such* sub-classes *may* be regarded by *the* firm *as market* segments.

**Sub-classes based on the mix** of benefits sought: If we also know who seeks the various sets of benefits, the sub-classes can be regarded as market segments.

Remember, logical division can be an empty exercise unless the bases for making the dichotomous categories are known to be relevant to purchase behaviour.



### Activity E

Suggest a suitable plan for segmenting market for detergents on the basis of product attributes by using the logical division method or top-down approach.

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### Activity F

In the above activity you were required to segment the market on the basis of product attributes. Do you think every consumer group focuses purely on product attributes?

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Classification and ordering also called bottom up approach may be used either as an alternative or as a complement to logical division. Here we seek to identify the wants or individual brands in the market and cluster them to form segments. Various perceptual mapping techniques have been used to show a set of brands on a graph, with the relative positions of the brands being based on the consumer's perceptions of similarity and dissimilarity.

### Perceptual mapping technique

**Market structure analysis** is the one technique that is used. It is the name given to a map that shows the perceived relative positions of products in respect to the dimensions used to evaluate brands. On **such** a map we can also plot the consumer's preference or ideal point.

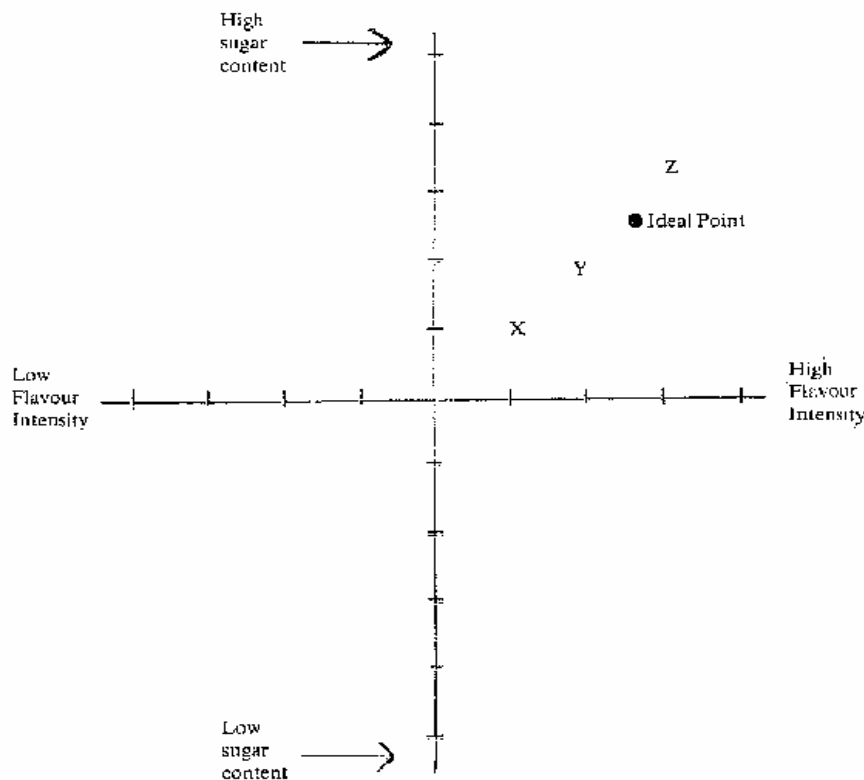
The first step in perceptual mapping is to identify the attributes or dimensions by which **those in the market evaluate the product by** using research techniques like in-depth interviews.

The next step is to ask consumers to rate each brand along each of the dimensions identified. (Statistical techniques such as factor analysis may be used to reduce large number of dimensions to the few underlying dimensions.)

Next, plot the consumer's preference or ideal point on the perceptual map.

To illustrate, assume that **'flavour'** and **'sweetness'** have been identified as two underlying dimensions to evaluate brands in the soft drinks market. The perceptual map (showing brands and ideal point) follows. To keep it simple, only three brands X, Y and Z have been taken and only one ideal point has been plotted. In other it is only a partial perceptual map. Also remember 'flavour' and 'sweetness' are not an all or nothing affair but a matter of degree. The criterion for assigning product attributes into segments is not usually a 'yes' or 'no' decision but a matter of **ordering**, where nest pigeon holes are, replaced by references to spaces of dimensions.

**Figure II: Perceptual Map**



Market Structure Analysis in the case of soft drinks market on the dimensions of flavour and sweetness

In examining the above perceptual map remember the following assumptions:

- the closer the positioning of two brand on the map, the more likely they are to compete with each other
- the closer a brand is to a consumer's ideal point, the more likely it is to be preferred by them
- gaps on the map can be identified as potential market niches or segment possibilities or other ideal points.

Further, the above perceptual map can be used to cluster brands into competing groups as a basis for defining segments.

### Considerations in using perceptual maps

The following points have to be borne in mind while using perceptual maps:

- Two brands may be similar that is near each other in relation to the two dimensions of the map, but it may be so only for buying occasion A and not for buying occasion B.
- Two consumers may have the same location on a map but arrive at that position by very different perceptual or attitudinal routes i.e., preference point may be the same but it may be the result of different attitudinal frameworks.
- Just because two brands A and B are closest on the map and the position occupied by A is the ideal point for a certain group of customers, it does not follow that B will necessarily be chosen if brand A for some reason cannot be bought. There is also no guarantee that the withdrawal of one brand may not bring about a reordering of the rest of them.

Further, to ask some consumer(s) about their ideal points or preferences with regard to the purchase of a particular product may create semantic problems about the meaning of ideal point. The meaning can vary from 'prefer just now' to 'always prefer'. Responses also can vary depending both on the context in which the consumer



imagines using the product and how the consumer interprets the term 'prefer' or 'ideal point'.

Then there are problems in ensuring that all the relevant dimensions are included, particularly when other attributes of the offering, not just product attributes, may be crucial factors in the buying decision.

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## 5.9 SELECTION OF SEGMENTS

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Before we conclude our discussion on market segmentation we should also discuss how a company should select its segments. Both general factors which one uses to evaluate any economic opportunity and the **factors specific to the situation** should be considered in evaluating segment options against these criteria.

### General factors

The following are some important general factors and these you must consider:

**Company thrust:** The company that is segmenting its market needs to identify the requirements for success in the concerned target market. Next, it must determine what particular business system consisting of marketing, production, finance, personnel, etc., will be needed to meet the requirements for success in that segment. As far as possible the firm's thrust should be such that it gives the company a critical advantage in that segment.

**Size and growth potential:** Not only the present size but also the future growth potential of the concerned target market must be considered. The current market demand by itself may prove misleading. The measurement might also create its own problems.

**Investment needed:** Investment needed for tapping that particular target market is another factor to consider and you must take care to see that both entry costs and costs associated with building market share have been included.

**Profitability:** The question of profitability is associated with investment decision. To calculate it we have to estimate both future sales and costs in the concerned segment. What must also be considered is value-added to the product that is to be marketed in that target segment, for a low value-added product makes profitability more hazardous.

**Risk:** There are the usual risks associated with the extent to which a particular target market would respond. But these are not the only ones. Other risks like the new product taking away part of the market share from the existing product(s) of the company in that target market need also be considered.

**Competition:** The selection of target market also implies selecting the competitors with whom the company will compete. Another important point to note in this context is that segment may be large but may already be well served by several well-entrenched competitors. The question naturally would be whether one would like to enter such a segment.

### Specific segmentation factors

The specific segmentation factors that you need to consider are as follows:

**Segment durability:** Remember, segments based on fads and fashions are of a short duration, that is their life cycles are ephemeral and your plans to tap such segments must take this into account. Besides, you can't think of making substantial investments in such ventures from the long-term point of view.

**Mobility:** Mobility means the movement in and out of a segment of members of a target group. If the mobility rate of target group members is high in respect of a certain product, say, hair oils, the company in order to keep its sales stable would have to attract new users to its product.

**Visibility:** Visibility refers to the extent to which the want of a target market or segment is distinctive. If what is sought by the members of that segment is perceived as very different, from what is sought in other segments, the segment 'loyalty' will be greater but those in

other segments may regard that offering as very different and something which is not meant for them. Highly visible segments, however, are likely to be more stable than other segments of a market.

**Accessibility:** Those in the segment or the target market should be directly reachable through established communications and distribution channels. If that particular segment cannot be reached the exercise in market segmentation will be futile.

For evaluating segment options on the basis of these factors, please remember that you will have to weigh these factors in the context of your specific situation.

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## 5.10 SUMMARY

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We started this unit by defining the two concepts viz., market and 'segment'. Market for this purpose was defined to mean the market for a particular product which in effect means the functions served by that product. Products catering to the same function are in competition and consequently are in the same market. The way we define our function-widely or narrowly-will determine how globally we want to define our competition. A market segment was explained to mean a homogeneous group consisting of buyers who seek the same offering. The two concepts are related to each other in the sense that the concept of a market as a set and a segment as a subset is the basis on which the process of segmentation is carried out. In defining a segment, however, we think less in terms of functions and more in terms of **benefits sought and by whom**. The output of a segmentation analysis is therefore:

- **a profile of our customer target group**, focusing on those details that will best help us develop product, promotional, pricing and distribution strategies;
- **the set of benefits sought** so we can build our offering to match the configuration of benefits sought and then select benefits in our offering that will constitute a critical advantage to act as the buying inducement,

Next we discussed bases for segmentation principally on the basis of what people **say, are, and do, i.e.**, benefit, demographic including social and family life cycle; and psychographic i.e., life style including personality variables. The two other bases, viz., usage rate with focus on heavy users and brand loyalty were also explained.

It was further emphasised that we could seldom be sure that we had segmented the market in the best possible way. For segmentation of a market is not an arbitrary process, but neither is there a unique set of segments to be discovered. It was emphasised that the ultimate aim of segmentation was to relate consumers in the segment and their likely response to different offerings.

The two approaches, top down and bottom up (logical division and offering) which are used for breaking up a market were then described. Finally factors both general and specific for evaluating segment options were explained.

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## 5.11 SELF-ASSESSMENT TEST

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The above discussion must have helped you to understand the concept of market segmentation. But please remember that any grouping or classification into segments is theory-loaded. What it means is that there is no standard answer as to what basis is best in a particular case. The 'theory' in the case of market segmentation is the connection between consumers in the segment and their likely response to different offerings.

So there is nothing like 'the answer' to some of the questions that follow. You should attempt these questions according to the best of your effort to assess yourselves about the extent to which you have understood the basic idea: underlying segmentation.

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### Activity G

- 1 Which companies in India in your opinion follow the product differentiation strategy and which the market segmentation strategy? (For this purpose examine the ads by Indian companies).
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- 2 Take any consumer product and describe the step by step procedure that you will follow in segmenting the market for that product. Some of the products could be
  - i) Women premium toilet soaps
  - ii) Cellular Phones
  - iii) Pager
  - iv) Condoms
- 3 a) As the market becomes more and more competitive, does that necessitate more segmentation?
  - b) Is market segmented to a greater degree in affluent societies than in developing countries?
- 4 Select some product say two or three and examine their ads to find out how the companies producing these products segment their markets?

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## 5.12 KEY WORDS

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Use-functions and generated functions of offerings: Products are bought to perform functions, that is, to produce effects. These functions relate to extrinsic preference and can be classified into **use-functions** and **generated-functions**.

**Use-functions** are the objective uses to which the product is put. The primary use-function of a detergent is to clean, of a watch to keep time and of a toothpaste to clean teeth. Generally, use-functions dominate our thinking about products. The more accurately a manufacturer can establish a use-function for his product in a market or market segment, the more precisely performance requirements can be laid down.

The **generated-functions** of a product are the additional **Costs and benefits** generated by using, consuming or possessing the product. Thus, while the use-function of car is to provide flexible, fast means of transportation, this would not be the sole basis for purchasing an imported Japanese foreign car say 'TOYOTA'. Such a car in India is a status symbol and may be bought primarily because of this. Thus a product is judged not simply on the basis of how well it will perform but also how it will be perceived by others, whether it is fashionable or too fashionable, whether its price is too high or too low, risks of obsolescence, and so on.

Many products possess the same use-function but not the same generated-function, and it may be the generated-functions that are vital.

The extent to which products perform the same use functions is a measure of the extent to which the products are substitutes. But whether such substitute products are directly competitive depends on the extent to which they are perceived as similar in terms of both use-functions and generated-functions.

**Need and Wants:** The word 'need' is often used interchangeably with 'want', but 'need' suggests a want that is an absolute requirement. Thus one may want 'idli and dosa' but need food. Few wants are needs in this sense.

**Factor analysis** is a statistical procedure for trying to discover a few basic factors that may underline and explain the inter-correlations among a large number of variables.

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## 5.13 FURTHER READINGS

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Malcolm McDonald, *Market Segmentation How to do it-how to profit it*, 2nd edition, Macmillan India Ltd: New Delhi

V. S. Ramaswamy, S. Nama Kumar 2002, *Marketing Management, Planning, Implementation & Control*, Macmillan India Ltd.