CHAPTER 2

REVIEW OF LITERATURE

2.1 Market segmentation: As long as companies have been competing for sales, markets have been separated into smaller homogenous markets (Ginter 1956). According to the founder of the market segmentation concept, Smith (1956), market segmentation is a brief and temporary phenomenon. Effective use of this tool may result in more official recognition of market segments through seeing groups of customers as individual markets. Market segmentation refers to looking at a heterogeneous market as smaller homogeneous markets, in order to be able to change product preferences to significant market segments’ needs (Smith 1956). These segments will be subjected to similar marketing activities in order to create required behaviour (Söderlund 1998). Thus, the underlying principle for segmentation is that the market is fragmented; hence, a homogenous market does not exist (Beane and Ennis 1987). Engel (1972) further contends the notion that consumers are different from each other, and that these differences influence market demand. Serving all consumers is almost like mission impossible; people have different needs and wants and therefore they cannot be targeted in the same manner (Vyncke 2002). To find those consumers a company can satisfy, it is of significant importance to undertake market segmentation.

In marketing literature, segmentation is a central and prevailing concept, which offers directives regarding companies marketing strategies. Segmentation constitutes the focal point in marketing strategy and has been extensively adopted by companies for as long as companies have tried to differentiate themselves from
competitors (Kamineni 2005)\textsuperscript{7}. Hunt and Arnett (2004)\textsuperscript{8} continue and argue that one of the most established notions in modern marketing is market segmentation.

According to Engel (1972)\textsuperscript{5}, companies adopting segmentation receive a wide range of advantages, especially concerning information that can be obtained. Weinstein (2006)\textsuperscript{10} state that companies must gain the consumers’ trust and win them over and to accomplish this, companies must understand consumers’ needs and wants in the segments where they struggle. Accordingly, by using the obtained information from segmentation, companies can easier understand consumers’ wants and needs (Engel et al 1972)\textsuperscript{5}. As one of the aims with advertising and promotion is to inform market segments of the product or service existing on the market, this information can be applied in order to direct companies marketing activities more effectively (Smith 1956)\textsuperscript{2}. Companies can then better adjust to shifting market demands and plan more distinct offerings to consumers (Engel et al 1972)\textsuperscript{5}.

To gain competitive advantages, companies should identify those segments with possibilities for the firm, target the particular group of customers and finally create a certain marketing mix aimed to reach each segment (Hunt and Arnett 2004)\textsuperscript{8}. Market segmentation often helps companies achieving better profitability than expected Wind (1978)\textsuperscript{9}, and one of the reasons why segmentation is such an accepted marketing tool is because it contributes to increased sales compared to mass marketing approaches Cross (1999)\textsuperscript{10}.

2.2 \textbf{Bases for market segmentation}: Since Smith (1956),\textsuperscript{2} first introduced the notion of segmentation, numerous ways for segmenting the market has been widely discussed in marketing literature (Mathur 2006\textsuperscript{11}; Vyncke 2002\textsuperscript{6}). However,
independent of which segmentation classification, they all presume that consumers can be divided into homogenous clusters. Thus, companies employ segmentation as a tool to identify desirable markets, and tailor the marketing mix. (McGoldrick 2002)\textsuperscript{12}

For a company to successfully target its wanted group, the segmentation strategy has to be completely accurate (Solomon 1994)\textsuperscript{13}, and if companies have well defined and penetrated market segments, the firm will get a deeper position on the market (Smith 1956)\textsuperscript{2}. However, segmenting a market successfully is a difficult task. Consumers operate on several levels, and it is hard to understand how and what consumers act on (Kamineni 2005)\textsuperscript{7}. Unfortunately, it is not directly obvious what individual demand thus causing different companies to come to diverse conclusions. This is due to differences in their theoretical and analytical approach, concerning what segment is right (Dickson and Ginter 1987)\textsuperscript{14}

Four different traditional market segmentation approaches are frequently being mentioned in marketing research. These segmentation variables are referred to as geographic, demographic, psychographic, and behavioural variables and consumers can be segmented according to them. According to Kotler (2005)\textsuperscript{15}, these variables are the major variables in market segmentation. They are further in this research referred to as traditional market segmentation variables. Geographic variables are such variables as country size, city size, and density. Segmenting on demographic variables involves dividing consumers with regard to their age, life cycle, income, and occupation. The psychographic variables cover social class, lifestyle, and personality. The fourth segmentation variable, behavioural consists of
benefits sought, usage rate, and purchase occasion. (Kotler et al 2005)\textsuperscript{15} each of these variables offer important insights to the understanding of the market. However, at the same time, there are constraints with using them. As such, critiques have been directed towards all of these traditional segmentation variables.

Geographic segmentation is not appropriate to use, since it has weaknesses in its nature (Haley 1968)\textsuperscript{16}. Furthermore, Haley (1968)\textsuperscript{16} claims that the geographic variables are not good predictors of the consumer behaviour, as in today’s society there is not much diversity between rural and urban areas. Thus, it is not effective to use this variable, as it cannot predict future buying behaviour within consumers. Moreover, geographic segmentation variables are based on ex post factor analysis of consumers in different market segments, which rely on explanatory features (Haley 1968)\textsuperscript{16}. The capability of geographical variables has also been questioned due to their lack in offering an understanding of target markets (Schoenwald 2001)\textsuperscript{17}.

Some of the problems with using demographic variables derive from marketers trying to segment whole markets. If there is not a clear segment, the demographic variables will be of no utility since they then cannot describe the segment. (Beane and Ennis 1987)\textsuperscript{18} neither are they capable to predict future buying behaviour (Haley 1968)\textsuperscript{16}, which are essential for marketers as this is the aim with segmentation; to make the consumers into a customer, meaning to make consumers buy. Marketing managers must know what it is that drive consumer’s behaviour. Based on this argument, demographic variables are not effective to apply, since they are unable to capture the drivers of consumers’ behaviour. (Lancioni and Oliva
demographic variables are not proficient enough to foresee behaviour (Tynan and Drayton 1987; Schultz 2002). Schultz (2002) also argues that segments based on demography are “nice to know but not terrible helpful”. Furthermore, these variables do not perform enough; marketers need and want to get more acquainted with their customers in order to effectively segment a market (Wells 1975).

Tynan and Drayton (1987) argue that demographic variables are weakly related to product choice. Additionally, these variables are not efficient to use due to that even if people share the same age, sex and so forth, they do not inevitably have common values, motivations and beliefs (Morgan 2003). Accordingly, it is difficult for a company to act on demographics (Winter 1984).

Critique has also been directed towards the psychographic segmentation variables. The theoretical linkage between these segmentation variables and companies’ decisions are considered weak and which consequently leads to a lack in validity. Companies that choose to apply psychographic variables due to the belief that they can offer rich descriptions, should not always expect them to accurately forecast consumer’ behaviour. This is because the lack of revealing important determinations of the basis for consumers’ behaviour. Additionally, the approach has also received critique, as it is perceived as being too explorative in its research process (Lesser and Hughes 1986). Yankelovich and Meer (2006) also claim that the weakness with psychographic variables is that they do not well forecast what consumers will buy. These variables are thus not good at helping marketers to decide which market to enter nor do they focus on one of the most
important determining factor the dissimilarities between different customers’ needs (Mitchell 2006)\textsuperscript{27}. If the aim is to investigate product innovation, companies need other segmentation variables than psychographic since they do not offer the needed information (Yankelovich and Meer 2006)\textsuperscript{26}.

Behavioural segmentation variables do also have difficulties in understanding consumers’ behaviour (Schoenwald 2001)\textsuperscript{17}. Furthermore, Haley (1968)\textsuperscript{16} argues that volume segmentation, part of behavioural segmentation, also has difficulties to predict consumers’ behaviour. Not all heavy users are exploiting the same brand since they are not looking for the same product benefits. A withdrawal when segmenting a market based on consumers attitude towards a product, is the use of performance data which do not reveal what the customers actually will do; only what they think about the company

Although traditional market segmentation research has received criticism, there still has not been much investigations undertaken focusing on finding new directions in the doctrine. Much literature on segmentation is very old, even though it is prominent place in marketing. Furthermore, there has been a tendency among researchers to have predisposition towards standardization of actions, and consequently little has been done to move outside of their ordinary area. Thus, new contributions have been somewhat restricted in their findings. This has contributed with favouring the continuous usage of traditional market segmentation variables. Reluctance in undertaking new methods is though peculiar, since segmentation is such a well established concept and prevailing in marketing literature.
Thus there is need to undertake additional investigations towards these widely discussed segmentation variables, which focus more on innovative methods. It is for instance important to commence research in areas where new variables can be found and in turn used when segmenting a market Wind (1978). According to Senn (cited in Sausner 2006), awareness about new, potential segment groups can help to enlighten companies when implementing their marketing strategy. By observing consumers’ behaviour, companies can receive advantages concerning what actions to take (Ibid).

In order to comprehend the multifaceted reasons and motives behind consumer’s behaviours and actions, we argue, there is a need and demand for a method, which can capture the meanings individuals have, and their consequential behaviour. We furthermore argue that a deeper examination is needed on traditional market segmentation variables, to be able to segment a market properly. Rosenthal and Capper (2006) claim that the boundaries with basing product innovation decisions on listening to consumers’ voices have contributed to the use of new research techniques, for example ethnographic studies. According to Arnould and Wallendorf (1994), ethnographic studies are appropriate to use for marketing managers in order to understand the meaning of consumption gatherings in specific market segments. Additionally, the use of ethnography can assist when explaining the influence of marketing uncontrollable on specific market segment (Ibid).

Ethnographic studies have thus the ability to capture more profound knowledge of consumers as it focuses on consumers underlying behaviour, thoughts and feelings, instead of listening to what consumers have to say. (Arnould
and Wallendorf 1994) as current research on traditional market segmentation has focused on descriptive features when developing strategies, an ethnographic study would contribute with a new perspective. Elliot and Jankel Elliot (2003) furthermore argue that ethnographic studies can obtain significant knowledge, which other research methods are incapable to reach. This means that insight on subtle often tacit requirements of consumers can be conveyed (Rosenthal and Capper 2006).

Invariably, marketers have used traditional methods as quantitative surveys (Mathur et al 2006; Hu and Rau 1995; Lin 2002) and qualitative interviews (Steenkamp and Wedel 1991; Vyncke 2002) when analysing consumers for finding new market segmentation possibilities. Several researchers have conducted research on segmentation in a too narrow-minded setting; they have been too focused on their own approach (Wind 1978). This has led to a continuous use of ordinary segmentation variables, as studies have been unable to capture new ways of reaching consumers. However, as researchers have contended that traditional segmentation variables have triviality in capturing consumers’ behaviour, are there any new ways, which are more appropriate ways of segmenting the market? As many of the traditional applied segmentation variables were developed a long time ago, and since critique (e.g. Singleton and Zyman 2004) has been directed towards them, we question whether these still are applicable and arguing for the possibility of finding new segmentation variables. Therefore, we assert for the potential of obtaining new knowledge by using unconventional methods. Hence, a new approach can lead to new insights.
William D. Neal; John Wurst\textsuperscript{36}, quoted in “Magazine of Management and Applications”, for most business firms, locality and effectively targeting unique market segments is both a reality and a necessity in today’s competitive market place. Creative market segmentation strategies usually afford the business organization a strategic advantage over their competition and provide marketing efficiencies that greatly improve customer retention and profitability. If a firm can address its markets by way of a creative new vision of how that market is structured and operates, and can uncover the needs and wants of the segments therein, then it has the opportunity to act on that vision to enhance its own profitability, often at the expense of the competition.

Jerry W. Thomas\textsuperscript{37}, President/CEO at Dallas Fort Worth based Decision Analyst, has quoted that, “The purpose of segmentation is the concentration of marketing energy and force on the subdivision (or the market segment) to gain the competitive advantage within the segment. If a brand pours its entire budget into one media, it can possibly dominate the segment of the market that listens to that radio station or reads that magazine. Markets can be segmented by hobbies, by political affiliation, by religion, by special interest groups, by sports team loyalties, by university attended, and hundreds of other variables. You are only limited by your marketing imagination. Verbatim comments from consumers are used to build batteries of psychographic or lifestyle statements. A good psychographic Segmentation is to first identify the statements that are more important (i.e., the statements that tend to explain or cause specific consumer behaviors). The market should be broadly defined for a segmentation analysis to be most effective. In other
words, do not preordain the results by sampling restrictions. Often, hidden in plain view in the plain old cross tabs, are tremendous findings that could form the basis for new or improved marketing strategies, advertising campaigns, or new products.”

Charlie Nelson\textsuperscript{38}, in his work on Market Segmentation wrote, “Market segmentation is important because markets are becoming increasingly diverse and it is rare for mass marketing to be a profitable strategy. Market segmentation enables more accurate and effective communication of benefits in relation to needs. It helps to identify growth opportunities.”

2.3 **Market segmentation for consumer goods:** Michael Richarme\textsuperscript{39} quoted that, “Consumer opinion research has a well-established track record, stretching over the past five or six decades. Conducting opinion research among businesses, however, is much more problematic. This is particularly evident at the simplest level of analysis, customer segmentation. However, segmentation techniques are evolving and techniques that were common practice in the recent past are rapidly being supplanted by newer, more meaningful segmentation techniques. The purpose of segmentation is to divide customers into distinct groups, such that marketing messages can be tailored to their specific needs. There are some general criteria for the establishment of these distinct groups. The groups of customers, or segments, should share more commonalities within each group than there are between groups. The segments should also be large enough for organizations to mount cost effective campaigns, and should be reachable through most media avenues. The simple demographic based segmentation approaches gave way to psychographic
segmentation, focusing on lifestyle choices. If the firm provides goods and services to other businesses, it may be time to take a solid look at your segmentation techniques. Though the process can be resource intensive, it can be accomplished as an evolutionary process that gradually adds more information and understanding to the firm’s decision processes, and ultimately to the firm’s profitability.”

J. Polpinij wrote that, “Due to competitive market, many firms’ operators are constantly searching for alternative methods to supplement their income. One method of business is market segmentation analysis. Consequently, the classical approaches to segmentation such as demographic and behavioural segmentation schemes are well known. Entrepreneurs may segment their market on the basis of demographic characteristics such as age, income, or gender and geographic concentrations of consumers with the desired attributes. Demographic variables are a critical component to market segmentation because demand for most products is related to factors such as age, income, and race. This research analyzes about automobile data by Back propagation artificial neural networks which one of machine learning technique for determining market plans. It used for classifying the group of geographic concentrations of consumers. When the segment model finished, it shown classifying model for analyzing concentrations of consumers. The third segment of the automobile is favourable, the mostly of group C is the Japanese car. The result from this analysis can be used to help determine marketing plans, particularly promotion, and to help companies retain and regain market share.”
Mr. Debra Murphy\textsuperscript{41} stated that Successful marketing usually occurs when you speak precisely to your target audience. Market segmentation helps you achieve that precision. Once you go through the exercise, you may choose to market to only one segment within your target market at any one time or you may choose to reach multiple segments simultaneously. In either case, you now can develop marketing messages that speak to your target segments, activities that are geared towards these segments, and clarity around your business that attracts clients like a magnet.”

The London school of hygiene and tropical medicine write in the research report, using promotion will grow the market for soaps both by increasing consumption and by introducing new customers. The poorer sections of society are the poorest served by the market but the fastest growing in terms of numbers. Purchasing power in the poorer segments is not increasing as rapidly as unsatisfied demand, highlighting the need to find cheaper products. The market for soap products is largely mature in developed markets and displays stagnant growth. The growth potential in developing countries is huge, but there are many obstacles to expansion. Recent growth in the mature developed world market reflects the heavy promotion of new product formulations, notably liquid hand soaps with or without antibacterial. The future is likely to see trends towards ‘natural’ products, and those with added value, further efforts at brand extension by the big players and further price competition leading to growth in the share of supermarket own label products. In developing and emerging markets, the drivers of growth have been aspiration and growing populations. Increasing disparity of income, and increased
consumption by the elites drives aspiration in the poorer segments. So does hugely expanded access to TV and communications. Products will be needed to satisfy these aspirations in poorer segments. The factors that are likely to encourage soap marketing and consumption, in developing countries in the future, they are; more discriminating educated and aware consumers, growth of the media, especially TV, improvements in transportation and communication networks, innovative R&D for raw materials and finished products, growth of supermarkets and retail outlets, high speed packaging machines and attractive packaging materials, state of the art technology to enhance productivity and reduce cost, increasingly talented advertising and market research agencies, liberalisation of markets and growth in free trade.

Jaspreet Bhasin Chandok and Mr. Hari Sundar\textsuperscript{43} wrote that we opened our country to foreign brands. As per this liberalization policy many a foreign players ventured into our country finding it a lucrative large mass market. They studied the coping strategies of Indian players in competition to the MNC companies. It studied those Indian players who have stood out in this competition and have been successful in doing so. India’s market potential lures foreign companies. However, local consumers and rivals have tripped many up. For foreign companies, doing business in India can be wrenching. Its demanding consumers can be difficult to read, and local rivals can be surprisingly tough. For most of its postcolonial life, India has shut out the world, adhering to a socialist ideal of self-reliance. Policymakers have been struggling for the past 16 years to attract capital and ignite growth. In 1991, the government dramatically rejected its socialist past and
admitted foreign investors. The idea was to enlist foreign companies' aid to turn India into another Asian Tiger, where cheap labour, English speaking workforce, a vast new middle class, and a democratic government would create a wave of prosperity. Now, the international companies that ventured in after 1991 are tallying their profits and losses and wondering what the future holds for this market of 950 million people. A primary lesson, especially for consumer goods companies, is not to be dazzled by India's size. Many investors accepted government estimates that India's middle class numbered 250 million. However, according to a recent survey of consumer patterns conducted by the National Council on Applied Economic Research in Delhi, India's consumer class probably totals 100 million at best and there's much stratification among them. People in Madras, for example, have tastes vastly different from people in Punjab. 'Different states have different consumption patterns and customs.

Multinationals in the grocery, durable goods, and packaged goods sectors have been entering India since 1991, when restrictions on foreign investment were relaxed. Some companies have adopted a specialty player strategy, catering to a small segment of "global Indians" and marketing products much as they would be marketed to any such customer around the world. These companies concentrate on a few big cities. Their business model is low risk and easily rolled out, can often be sustained initially through imports, and requires a limited distribution network. Although businesses of this kind can be profitable, their sales volumes are typically modest and will grow only as fast as the segment does (V. T. Bharadwaj, Gautam M. Swaroop, and Ireena Vittal) 44
S. Sundar (2007) for many years, community development goals were philanthropic activities that were seen as separate from business objectives, not fundamental to them. ‘Doing well’ and ‘Doing good’ were seen as separate pursuits. That is changing. Today, the emergence of cause marketing programs, have heralded a dramatic shift in nonprofits for profit relationships. It has established the concept that community development and support could be positioned at the intersection of business objectives (sales/profits) and societal needs. Supporting a specific cause and being public about this support gives companies identifiable personalities, demonstrates what they stand for, and helps them connect with customers, suppliers, investors, employees, and the community. Cause marketing programs allow the consumers to overtly and publicly express their belief in and support for, the causes that are most important to them.

The theory of market segmentation is based on the fact that the behaviour of each consumer within a given market is too diverse for any organisation to study and address to an individual level (Sohi, 1996; Cui and Choudhury, 2002; Baltas, 2005; Kalchschmidt, Verganti and Zotteri, 2006 and Gonzalez Benito, Martinez Ruiz and Molla Descals, 2008). As a result, market segmentation, according to Goodstein, Nolan and Pfeiffer (1993), is used to divide the market into groups of individuals that are characterised by similar preferences, so as to enable the identification of those that are the most interested in a particular product offer or marketing proposition (and thus appropriate for targeting). In doing that, it allows organisations to study in depth the factors that influence the purchase decision of the target segments, thus increasing their understanding on the
behaviour of the consumers and enabling the formulation of marketing strategies that are relevant and accurate (Hassan and Craft, 2005) \(^{52}\). The benefit in exploiting a market segment rather than the market as a whole is that the individuals between the market segments have different preferences and price elasticity. Hence, providing the opportunity to organisations, to charge different prices by differentiating the same products to the needs or wants of each segment (Dickson and Ginter 1987 \(^{53}\); Croft 1994\(^ {54}\); Wyner 1995\(^ {55}\); Kara and Kaynac, 1997\(^ {56}\); Webber 1998\(^ {57}\); Levin and Zahavi, 2001\(^ {58}\); Hassan, Craft and Kortam, 2003 \(^ {59}\) and Wenstein, 2004\(^ {60}\)).

However, according to Jenkins and McDonald (1997)\(^ {61}\) and Dolnicar (2005)\(^ {62}\), in order for market segmentation to take place, the market under study has to be grouped into segments, the tools that research whether such segments exist are the data mining methods (Hoek, Gendall and Esslemont, 1996\(^ {63}\); Wedel and Kamakura, 2000\(^ {64}\) and Luan, 2001\(^ {65}\)). More specifically, the data mining methods that determine whether segments of consumers that can become potential customers exist are the target selection models. Target selection models aim to specify the target audience for a particular product by identifying the profiles of customers that have shown an interest in that product in the past through the analysis of customer data obtained from similar previous marketing campaigns (Kaymac, 2001\(^ {66}\)).

Basu Purba (2004)\(^ {67}\), suggested that the lifestyle of rural consumers is changing. Rural Indian market and the marketing strategy have become the latest marketing buzzword for most of the FMCG majors. She added the strategies of different FMCG companies for capturing rural market like Titan’s Sonata watches,
Coco Cola’s 200ml bottle, different strategies of HUL and Marico etc. She takes into consideration the study of National Council for Applied Economic Research (NCAER). According to the NCAER projections, the number of middle and high-income households in rural area is expected to grow from 140 million to 190 million by 2007. In urban India, the same is expected to grow from 65 million to 79 million. Thus, the absolute size of rural India is expected to be double that of urban India.

Tognatta Pradeep (2003)\(^6\), suggested that, the economic growth in India's agricultural sector in last year was over 10\%, compared with 8.5\% in the industrial sector. This implies a huge market potentiality for the marketer to meet up increasing demand. Factors such as village psyche, strong distribution network and market awareness are few prerequisites for making a dent in the rural markets. The model is of the stolid Anglo Dutch conglomerate Unilever Group, which has enjoyed a century long presence in India through its subsidiary Hindustan Lever Ltd. It was Hindustan Lever that several years ago popularized the idea of selling its products in tiny packages. Its sachets of detergent and shampoo are in great demand in Indian villages. Britannia with its low priced Tiger brand biscuits has become some of the success story in rural marketing.

Aithal, K Rajesh (2004)\(^6\), suggested that rural markets are an important and growing market for most products and services including telecom. The characteristics of the market in terms of low and spread out population and limited purchasing power make it a difficult market to capture. The Bottom of the pyramid marketing strategies and the 4 A's model of Availability, Affordability,
Acceptability and Awareness provide them with a means of developing appropriate strategies to tackle the marketing issues for marketing telecom services in rural areas. Successful cases like the Grameen Phone in Bangladesh and Smart Communications Inc in Philippines also provide them with some guidelines to tackling the issue.

Unlike the U.S. market for fast moving consumer goods (FMCG), which is dominated by a handful of global players, India's Rs.460 billion FMCG market remains highly fragmented with roughly half the market going to unbranded, unpackaged home made products. This presents a tremendous opportunity for makers of branded products who can convert consumers to branded products. However, successfully launching and growing market share around a branded product in India presents tremendous challenges. Take distribution as an example. India is home to six million retail outlets and super markets virtually do not exist. This makes logistics particularly for new players extremely difficult. Other challenges of similar magnitude exist across the FMCG supply chain. The fact is that FMCG is a structurally unattractive industry in which to participate. Even so, the opportunity keeps FMCG makers trying (Amritanshu Mohanty, 2010). At macro level, Indian economy will be equanimous to remain resilient at 8.5% growth. This economic growth would affect large number of population, thus leading to more money in hands of the consumer. Changes in the demographic composition of the population and thus market will continue to affect the Indian FMCG industry. One of the major challenges, which FMCG has to face, is rural marketing. Rural India is vast with immense opportunities. 70% of Indian
population resides in rural areas and these can bring in much needed volume and help FMCG companies to achieve higher growth. This should be a melody for FMCG companies who have reached saturation point in urban India (Manish Marwah) 71.

2.4 References:


5. James F. Engel (1972), ”The current status of consumer behaviour research: developments during the 1968-1972 period”, in Proceedings of the Third Annual Conference of the Association for Consumer Research, Association for Consumer Research, p 576-585


