CHAPTER - 2

CONCEPTUAL FRAMEWORK

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2.1: INTRODUCTION

A strategy is a long-term plan to achieve certain objectives. A marketing strategy is therefore a marketing plan designed to achieve marketing objectives. Marketing can thus be seen as the process of developing and implementing a strategy to plan and coordinate ways of identifying, anticipating and satisfying consumer demands, in such a way as to make profits. It is this strategic planning process that lies at the heart of marketing. The more committed a company is to its marketing activities, the more able it will be to pursue its corporate objectives and develop and retain customers. Every business in existence relies upon its customers for survival, and those who best meet customer needs will always survive a period of change (www.businesscasestudies.co.uk)¹.

The theoretical grounding for market segmentation comes from economic pricing theory, which indicates that profits can be maximized when prices that discriminates segments are set (Frank and Wind, 1972)². Different authors and marketers have defined the concept of market segmentation. All those definitions reveal the idea of dividing a heterogeneous group of people into homogeneous groups with common tastes, preferences, needs, requirements and other traits. Organizations used to think that if they target only a segment of market, the economics would not work. But over the years, companies have realized the importance of segmentation as the consumers are becoming increasingly aware of their needs and are demanding products that match their needs exactly. Market segmentation looks at markets consisting of customers who differ in their wants and needs. Some firms adopt market segmentation because they lack the ability and competitiveness to cater to the mass market. But of late, market segmentation is being suggested as the best strategy for targeting the markets.

Market segmentation was first put forward in the middle of 1950s by Wendell. R. Smith, an American professor of marketing. "Market
Segmentation is to divide a market into smaller groups of buyers with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes” (Lamb 2003). Segmentation is the process of dividing the market into groups of customers or consumers with similar needs. The more closely the needs match up, the smaller the segment tends to be, but the higher the premium customers are likely to be prepared to pay to have a product that more exactly meets their needs. Segmentation allows marketers to identify distinct groups of customers whose behaviors significantly differ from others. This allows firms to adjust their marketing mix, to cater to particular needs of different market segments. Four segmentation bases have emerged as the most popular in segmentation studies (Kotler and Armstrong, 2005): geographic segmentation (i.e. markets segmented by geographic region, population density or climate); demographic segmentation (i.e. markets segmented by age, sex, size and family type, etc.); psychographic segmentation (i.e. markets segmented by life-style variables); and behavioural segmentation (i.e. markets segmented by purchase occasion, benefits sought, user status). The segmentation base chosen to subdivide a market will depend on many factors such as “the type of product, the nature of demand, the method of distribution, the media available for market communication, and the motivation of the buyers” (Chisnall, 1985).

Segment congruence analysis usually progresses in the following manner: Traditional dimension-reducing techniques such as factor and cluster analysis are used to identify a number of segmentation bases (batteries of variables). These segmentation bases can then serve as categorical variables and a multidimensional, contingency table is formed. Various categorical data analysis tests are carried out on the multi-way table to assess the nature and extent of associations among its dimensions. A segmentation base is identified as the distinguished base and a model is developed for predicting this.
base from other (possibly external) variables. The present paper highlights the definition and major basis of market segmentation.

Market segmentation primarily includes selecting a market or product category for study, choosing a basis or base for segmenting the market. There are no scientific procedures for selecting segmentation variables. However, a successful segmentation plan must produce market segments which meet the four basic criteria: “substantiality, identifiability, accessibility, and responsiveness”. Next is “selecting segmentation descriptors”. After choosing one or more bases, the marketer must select the segmentation descriptors. Descriptors identify the specific segmentation variables to be used. Next is to “profile and analyze segments”. The analysis should include the segment’s size, expected growth, purchase frequency, current brand usage, brand loyalty, and long-term sales and profit potential. This information can then be used to rank potential market segments by profit opportunity, risk, consistency with organizational task and objectives, and other factors which are important to the company. Next is “selecting target markets”. It is a major decision that affects and often directly determines the firm’s marketing mix. The last one is “designing, implementing and maintaining appropriate marketing mixes”. The marketing mix has been described as product, distribution, promotion and price strategies which are used to bring about mutually satisfying relationships with target markets According to Lamb and McDaniel (2003).

Best (2004) proposed a framework for implementing a market segmentation strategy. He suggests a set of sequential steps to be taken in a needs-based segmentation process the primary benefit of needs-based segmentation is that segments are created around specific customer needs. The goal is to determine what observable demographics and behaviors differentiate one segment from another in order to make need-based market segmentation actionable.
Market segmentation strategy is an adaptive strategy. It consists of the operation of the market with the purpose of selecting one or more market segments which the organization can target through the development of specific marketing mixes that adapt to particular market need.

Consumer market can be segmented on the basis of customer’s characteristics namely, geographic, demographic, psychographic and behavioral.

Geographic Segmentation can be done on the basis of variables, such as, region (Continent, Country, State or by neighborhood), size of metropolitan area (Segmented according to population size), population Density, climate and so on.

Demographic segmentation can be done on the basis of variables such as, age, gender, family Size, family Life Cycle, income, occupation, education, generation, ethnicity, nationality, religion, social class etc.

Psychographic segmentation variables include variables like, interests, activities, opinions, values, attitudes etc.

Finally, behavioral segmentation is based on actual customer behavior towards products. This includes variables such as, benefits sought, usage Rate, brand loyalty, user status, readiness to buy, occasions etc.

Insurance, being a service needs more careful analysis of customer needs and requirements to cater customized products. Adrian Payne has defined service as an activity that has an element of intangibility associated with it and which involves the service provider’s interaction either with the customers or with the property belonging to the customer (Payne, 1993). According to Philip Kotler, service is “any activity of benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. The term “insurance” can be defined in both financial and legal terms. The financial definition focuses on an arrangement that redistributes the cost of unexpected losses. That is, the collection of a small premium payment from all exposed
and distributed to those suffering loss. The legal definition focuses on a contractual arrangement whereby one party agrees to compensate another party for losses. Insurance is a social device in which a group of individuals (insured’s) transfer risk to another party (insurer) in order to combine loss experience, which permits statistical prediction of losses and provides for payment of losses from funds contributed (premiums) by all members who transferred risk. In such case, the process of market segmentation involves three major steps- identifying customer segments; selecting customer segments; and testing the segments for relevance. The first step helps the marketers in designing, promoting, delivering or pricing the service for each segment. It basically helps in identifying the marketing mix for each segment. The second step involves analyzing the segments identified in the first step on the basis of their size, growth potential, profitability and the purchasing power which helps marketers to select and invest in the segments that can fetch the best results for the company. The third or final step involves developing the profiles of the customer segments identified previously. It includes developing products or services and their marketing mix that match the user profiles. The concept of market segmentation in Insurance sector has evolved because of the structural changes and transformation of the industry across the world which have been mainly driven by few factors namely, change in profile and expectations of customer; change in the market through entry of foreign players and increasing competition; and advancements in technology. There are three basic strategic approaches to market segmentation which can be adopted by the companies namely, undifferentiated marketing approach, differentiated marketing approach and concentrated marketing approach. The undifferentiated marketing approach, also known as mass marketing approach, aims at serving all the consumers by offering a single product or service. It involves a single marketing mix. The differentiated marketing approach, also known as the product-variety marketing approach, aims at targeting consumers of various segments by offering different
products or services for each segment and the concentrated marketing approach, also known as single segment strategy, aims to serve limited segments in the total market. Market segmentation reflects reality in marketing situation. It helps to understand potential customers, pay proper attention to particular areas, formulate marketing programs, select channels of distribution, understand competition, use marketing resources effectively, advertise the products, launch sales promotion programs and design marketing mix.

The life insurance market in India is divided into two customers segments: *individual* and *corporate*. The segment comprising individual customers is further divided into four sub-segments- *protection*, *investment*, *savings* and *pension*. Protection products offer the customer only protection from risk. They do not provide any savings facility to the policy holder. Investment products offer long-term investment growth and insurance cover. Savings products provide a combination of protection and investment benefits and pension policies are products offered to customers as income during their years of retirement.

The ability to accumulate and manage massive amounts of data on customers and potential customers, aligned with the availability of more flexible product offers, more targeted communication capabilities and multi channel delivery system would assure that there will be increasing number of customers and their needs better served.

**2.2: MEANING OF MARKET SEGMENTATION**

The concept of market segmentation can be applied in two senses, *viz.*, customer centric and company centric.

Market segmentation offers several potential benefits to a business. It helps in better matching of customer needs with the company’s products. Customer needs differ and hence, creating separate products for each segment makes
sense. It helps in enhancing profits for business. Customers have different disposable incomes and vary in how sensitive they are to price. By segmenting markets, businesses can raise average prices and subsequently enhance profits (Barnes, 1994).

It helps in exploring better opportunities for growth. Market segmentation can build sales. For example, customers can be encouraged to “trade-up” after being sold an introductory, lower-priced product.

Segmentation also helps in retaining customers. By marketing products that appeal to customers at different stages of their life, a business can retain customers who might otherwise switch to competing products and brands.

It also helps in targeting marketing communications. Businesses need to deliver their marketing message to a relevant customer audience. By segmenting markets, the target customer can be reached more often and at lower cost.

Segmentation also helps a company to gain share of the market segment. Through careful segmentation and targeting, businesses can often achieve competitive production and marketing costs and become the preferred choice of customers and distributors.

The benefits of market segmentation to customers are immense. It primarily benefits a customer by providing a product which exactly fit to his/ her needs or requirements without any compromise. Customers get value for their money in the form of features and price of the product (Das, 2005).
2.3: **NEED FOR MARKET SEGMENTATION**

Market segmentation is the first of three important steps in developing marketing strategy. Segmentation groups customers with similar needs and responses; targeting determines which segments to serve; positioning is about how the product should compete with others in the market.

The objectives of market segmentation are to more accurately meet the needs of selected customers in a more profitable way.

Not all individuals have similar needs. A male and a female would have varied interests and liking towards different products. A kid would not require something which an adult needs. A school kid would have a different requirement than an office goer. Market Segmentation helps the marketers to bring together individuals with similar choices and interests on a common platform.

- Market Segmentation helps the marketers to devise appropriate marketing strategies and promotional schemes according to the tastes of the individuals of a particular market segment. The marketers must be able to relate their products to the target segments.
- Market segmentation helps the marketers to understand the needs of the target audience and adopt specific marketing plans accordingly. Organizations can adopt a more focused approach as a result of market segmentation.
- Market segmentation also gives the customers a clear view of what to buy and what not to buy. In simpler words, the segmentation process goes a long way in influencing the buying decision of the consumers.
- Market segmentation helps the organizations to target the right product to the right customers at the right time. Geographical segmentation classifies consumers according to their locations. A grocery store in colder states of the country would stock coffee all
through the year as compared to places which have defined winter and summer seasons.

- Segmentation helps the organizations to know and understand their customers better. Organizations can now reach a wider audience and promote their products more effectively. It helps the organizations to concentrate their hard work on the target audience and get suitable results.

2.4: ISSUES IN MARKET SEGMENTATION

Although there are numerous reasons for market segmentation there are a variety of problems associated with it. These problems include identifying the most important market segments, knowing how to market a product, noticing changes within a market segment and failing to fulfill the needs of potential customers outside of the chosen market segment.

For segmentation to be successful it requires that market segments are identifiable, reachable and distinct. When a business attempts to segment a market it may be unable to categorize its customers. While certain segmentation can be simple (such as by age), segmentation by some other categories is more difficult. For example it is more difficult to segment a market on a product by product basis.

The next problem with segmentation is knowing how to reach the chosen market segment. This is especially difficult when a business is using lifestyle categories to select a market segment. Lifestyle characteristics are particularly difficult to identify and locate. This can cause ineffective advertising and promotion which is very costly.

To remain successful at targeting their chosen market segment businesses have to notice, recognize and adapt to any changes within the segment. Every
market in the world is fluid and dynamic and if a business assumes their market segment will remain loyal to their product it could spell disaster.

By targeting a specific market segment businesses run the risk of failing to meet the needs of customers outside of their chosen segment. This could lead to potential customers being ignored through emphasis on segmentation and make it more difficult for a business to attract a wider market.
References

1 http://www.businesscasestudies.co.uk accessed on 15.01.2013


7 Payne, Adrian (1993): The essence of services marketing, Prentice Hall Publications
