CHAPTER - TWO
DEMOGRAPHICS AND MARKET SEGMENTATION

This chapter elaborates on the definition of Demographics and the impact of Demographics on the Retail Market. It also gives information on Segmentation of market with respect to demographics.

2.1 Demographics -- Demographics allow you to understand the population in any geographic area: age, income, gender, family, buying behavior, customer preferences or understand the businesses in any area: size, industry, employees, and revenues. The goal of demographic analysis is often to identify the demographic makeup of your target market, and find more market geographies with similar demographic characteristics.

- **Age** is an important factor to consider because personal expenditures change as individuals grow older. We’ve already noted that purchases change throughout a family’s life cycle, and that holds true for individuals, as well.

- **Education levels** also figure into the socio-economic status of an area. Because income increases with advancing educational attainment, many retailers focus on income level rather than education. There are some exceptions to this, though. Bookstores are often cited by developers as a business whose success is directly correlated with the number of college educated individuals in the trade area. Similarly, computer and software stores are often located in areas with high levels of education. In general, areas with
high levels of educational attainment tend to prefer “the finer things.” On the other hand, less-educated populations generally have lower incomes and thus tend to prefer shopping at discount retail outlets.

- **Occupational concentrations** of white and blue-collar workers are used as another gauge of a market’s taste preferences. Specialty apparel stores thrive in middle to upper income areas and those with above-average white-collar employment levels.

- **Ethnicity** is another factor retailers consider when choosing merchandise to carry. Data show that ethnicity affects spending habits as much as other demographic characteristics, such as income and age. Tastes in goods and services vary between ethnic groups, and local retailers are wise to cater to the different needs of ethnic groups in their trade area. Ethnicity influences retailers’ product mix, including the lines of clothing they carry, and their advertising. Retailers that use segmentation based on race and ethnic groups must make sure their efforts effectively measure the true preferences and behaviors of the community.

- **Housing** ownership and rate of housing turnover is an important factor for numerous retailers to consider. Home ownership directly correlates with expenditures for home furnishings and home equipment. Furniture, appliances, hardware, paint/wallpaper, floor covering, garden centers and other home improvement products all prosper in active housing markets.
• **Buying Behavior:** Customers are better educated, wealthier and have more choice than ever before. Because of this they are highly demanding of retailers. Increasingly they expect delivery on all fronts and are not prepared to compromise. This means selling the right product at the right price, in the right place and with the correct service level all become critical if retailers are to maintain customer loyalty.

• **Customer preferences:** Customers in today time are looking for much more than just products, they want experiences by which they can feel the transformation. These days everyone wants to be a celebrity if not literally, then at least to lead a lifestyle similar to a celebrity. The growth in sales of gossip magazines, such as OK and Hello, which scrutinize every aspect of the lifestyles of the rich and famous, attests to customers’ interest. One implication of this is that shoppers will increasingly look for status, recognition and self-esteem in their shopping and leisure habits. Retail businesses will have to take this into account when dealing with marketing and customer relations and will need to treat

• **Family:** Lifecycle segmentation consisting of eight groups. It is based on the assumption that as people move through their lives their shopping habits change because their life circumstances change. The notion that the nuclear family stays together through life is still the norm in most countries, but it is changing. There are now a wide variety of family forms and lifestyles,
reflecting rising rates of divorce and remarriage, delayed marriage, and increasing percents of never-married and childless adults.

2.2 MARKET SEGMENTATION AND CUSTOMER DEMOGRAPHICS:

While there may be theoretically 'ideal' market segments, in reality every organization engaged in a market will develop different ways of imagining market segments, and create product differentiation strategies to exploit these segments. The market segmentation and corresponding product differentiation strategy can give a firm a temporary commercial advantage. Most market segmentations are the techniques used to attract the right customer.

An ideal market segment meets all of the following criteria:

- It is possible to measure.
- It must be large enough to earn profit.
- It must be stable enough that it does not vanish after some time.
- It is possible to reach potential customers via the organization's promotion and distribution channel.
- It is internally homogeneous (potential customers in the same segment prefer the same product qualities).
- It is externally heterogeneous, that is, potential customers from different segments have different quality preferences.
- It responds consistently to a given market stimulus.
• It can be reached by market intervention in a cost-effective manner.

• It is useful in deciding on the marketing mix.

Market segmentation is a marketing strategy that involves dividing a broad target market into subsets of customers who have common needs (and/or common desires) as well as common applications for the relevant goods and services. Depending on the specific characteristics of the product, these subsets may be divided by criteria such as age and gender, or other distinctions, such as location or income. Marketing campaigns can then be designed and implemented to target these specific customer segments.

2.3 BASIS FOR SEGMENTING CUSTOMER MARKETS

Geographic segmentation

The market is segmented according to geographic criteria—nations, states, regions, countries, cities, neighborhoods, or zip codes. Geo-cluster approach combines demographic data with geographic data to create a more accurate profile of specific with respect to region; in rainy regions you can sell things like raincoats, umbrellas and gumboots. In hot regions you can sell summer wear. In cold regions you can sell warm clothes.

Demographic Segmentation

Demographic segmentation consists of dividing the market into groups based on variables such as age, gender, family size, income, occupation, education, religion,
race and nationality. As one might expect, demographic segmentation variables are amongst the most popular bases for segmenting customer groups. This is partly because customer wants are closely linked to variables such as income and age. Also, for practical reasons, there is often much more data available to help with the demographic segmentation process.

Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand customers. Psychographic segmentation: customer is divided according to their lifestyle, personality, values and social class. Aliens within the same demographic group can exhibit very different psychographic profiles.

"Positive" market segmentation

Market segmenting is dividing the market into groups of individual markets with similar wants or needs that a company divides into distinct groups which have distinct needs, wants, behavior or which might want different products & services. Broadly, markets can be divided according to a number of general criteria, such as by industry or public versus private. Although industrial market segmentation is quite different from customer market segmentation, both have similar objectives. All of these methods of segmentation are merely proxies for true segments, which don't always fit into convenient demographic boundaries.
Behavioral Segmentation

In behavioral segmentation, customers are divided into groups according to their knowledge of, attitude towards, use of or response to a product. It is actually based on the behavior of the customer.

Occasions

Segmentation according to occasions, we segment the market according to the occasions of use. For example, whether the product will be used alone or in a group, or whether it is being purchased as a present or for personal use.

Benefits

Segmentations according to benefits sought by the customer are yet another classification.

Market Segmentation – Demographics

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the demographic segmentation process. The main demographic segmentation are

**Age**

Customer needs and wants change with age although they may still wish to customer the same types of product. So Marketers design, package and promote products differently to meet the wants of different age groups. Good examples include the marketing of toothpaste (contrast the branding of toothpaste for children and adults) and toys (with many age-based segments).

**Life-cycle stage**

A customer stage in the life-cycle is an important variable - particularly in markets such as leisure and tourism. For example, contrast the product and promotional approach of Club for the age group 18-30.

**Gender**

Gender segmentation is widely used in customer marketing. The best examples include clothing, hairdressing, magazines and toiletries and cosmetics.
Income
Another popular basis for segmentation is income. Many companies target affluent customers with luxury goods and convenience services. Example Wills lifestyle stores, UB City (Bangalore). By contrast, many companies focus on marketing products that appeal directly to customers with relatively low incomes. Examples include Big Bazaar, Mega Mart, and Brands & Bargains (For discounted clothing).

Social class
Many Marketers believe that a customer’s "perceived" social class influences their preferences for cars, clothes, home furnishings, leisure activities and other products & services. There is a clear link here with income-based segmentation.

Lifestyle
Marketers are increasingly interested in the effect of customer "lifestyles" on demand. Unfortunately, there are many different lifestyle categorization systems, many of them designed by advertising and marketing agencies as a way of winning new marketing clients and campaigns.
2.4 The Role of Demographics in Indian Retail

Favorable demographic and psychographic changes relating to India’s customer class, international exposure, availability of quality retail space, wider availability of products and brand communication are some of the factors that are driving the retail in India. Over the last few years, many international retailers have entered the Indian market on the strength of rising affluence levels of the young Indian population along with the heightened awareness of global brands, international shopping experiences and the increased availability of retail real estate space.

Development of India as a sourcing hub shall further make India as an attractive retail opportunity for the global retailers. Retailers like Wal-Mart, GAP, Tesco, JC Penney, H&M, Karstadt-Quelle, Sears (Kmart), etc stepping up their sourcing requirements from India and moving from third-party buying offices to establishing their own wholly owned / wholly managed sourcing & buying offices shall further make India an attractive retail opportunity for the global players.

Manufacturers in industries such as FMCG, customer durables, paints etc are waking up to the growing clout of the retailers as a shift in bargaining power from the former to the latter becomes more discernible. Already, a number of manufacturers in India, in line with trends in developed markets, have set up dedicated units to service the retail channel. Also, instead of viewing retailers with
suspicion, or as a ‘necessary evil’ as was the case earlier, manufacturers are beginning to acknowledge them as channel members to be partnered with, for providing solutions to the end-customer more effectively.

Though lucrative opportunities exist across product categories, food and grocery, nevertheless, presents the most significant potential in the Indian context as customer spending is highest on food. Further, ‘wet groceries’ i.e. fresh fruits and vegetables is the most promising segment within food and grocery though initially all retailers foraying in to this segment had to face had wide spread protest from traders, small shop keepers.

The next level of opportunities in terms of product retail expansion lies in categories such as apparel, jewellery and accessories, customer durables, catering services and home improvement. These sectors have already witnessed the emergence of organized formats though more players are expected to join the bandwagon. Some of the niche categories like Leisure and entertainment (Books, Music and Gifts in particular) offer interesting opportunities for the retail players.

Currently the fashion sector in India commands a lion’s share in the organized retail pie. This is in line with the retail evolution in other parts of the world, where fashion led the retail development in the early stages of evolution and was
followed by other categories like Food & Grocery, Durables etc. Fashion across lifestyle categories makes up for over 50 per cent of organized retail and with the kind of retail space growth that India is witnessing we can certainly foresee a very healthy prospect for the fashion industry. As nations become richer, their people start appreciating luxury goods and fine dining. India has over one million such people and this number is expected to triple by 2010. A recent report divides customers for luxury goods into four categories – luxuriated: source of affluence is largely traditional and inherited; New rich: adequate spending power and are acquiring orientation to luxury; Getting there: acquiring spending power and spend mainly on education, housing and large automobiles; Mid-affluent: are also acquiring orientation to luxury but unlikely to indulge beyond a limit.

The most important categories for luxury goods customers are housing, travel, education, higher end automobiles, electronics and other home improvement products besides fashion, lifestyle and fine dining. The most important reason for luxury retail not taking off in India so far has been the lack of luxury retail environment. The presence has been primarily confined to luxury hotels’ with shopping plazas.
References


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