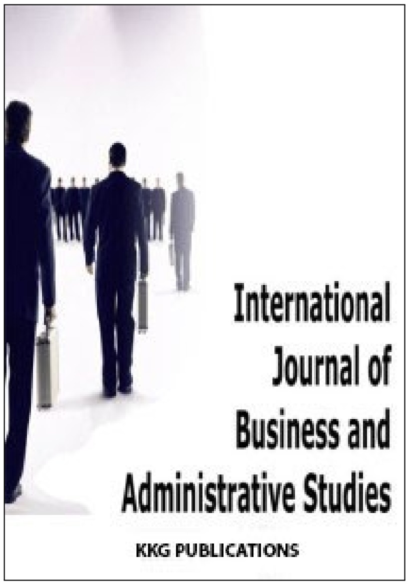
This article was downloaded by:
Publisher: KKG Publications
Registered office: 18, Jalan Kenanga SD 9/7 Bandar Sri Damansara, 52200 Malaysia



Key Knowledge Generation
Publication details, including instructions for author and subscription information:
http://kkgpublications.com/business/

Bases of Market Segmentation Success: A Marketing Decision Makers' Perspective

JOHANNES HENDRIK VISSER

University of South Africa, South Africa

Published online: 18 June 2016

To cite this article: Visser, J. H. (2016). Bases of market segmentation success: A marketing decision makers perspective. *International Journal of Business and Administrative Studies, 2*(3), 75-80.
DOI: https://dx.doi.org/10.20469/ijbas.2.10004-3

To link to this article: http://kkgpublications.com/wp-content/uploads/2016/2/Volume2/IJBAS-10004-3.pdf

PLEASE SCROLL DOWN FOR ARTICLE

KKG Publications makes every effort to ascertain the precision of all the information (the "Content") contained in the publications on our platform. However, KKG Publications, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the content. All opinions and views stated in this publication are not endorsed by KKG Publications. These are purely the opinions and views of authors. The accuracy of the content should not be relied upon and primary sources of information should be considered for any verification. KKG Publications shall not be liable for any costs, expenses, proceedings, loss, actions, demands, damages, expenses and other liabilities directly or indirectly caused in connection with given content.

This article may be utilized for research, edifying, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly verboten.

KKG PUBLICATIONS

International Journal of Business and Administrative Studies
2016, 2(3), 75-80

IJBAS

BASES OF MARKET SEGMENTATION SUCCESS: A MARKETING DECISION MAKERS' PERSPECTIVE

JOHANNES HENDRIK VISSER *†

University of South Africa, South Africa

Keywords:
Market Segmentation
Management Practice
Segmentation Theory

Received: 05 February 2016
Accepted: 07 April 2016
Published: 18 June 2016

Abstract. Market segmentation is an important instrument in strategic marketing and regarded as a key element of marketing strategy (Palmer & Millier, 2004; Hooley, Piercy & Nicoulaud 2012). It is viewed as a basis for superior financial performance (Cravens & Piercy, 2013). It is often also referred to as marketing's Segmentation, Targeting and Positioning (STP) process in marketing literature. There is criticism against market segmentation's usefulness to marketing practitioners by marketing academics for a while now. For instance, Foedermayr and Diamantopoulos' (2008) analysis of market segmentation practices indicated a need for market segmentation research that could be generalized with more confidence. Their literature review revealed that most segmentation research deals with how it should be done and not how it is done. Reibstein, Day and Wind, (2009) asserted that marketing academics' neglect to develop applicable models for critical and strategic marketing issues had created a vacuum between academics and their marketing counterparts in practice. In a sense, it also marginalized marketing as a discipline that should add value to executives looking for solutions to the problems they face in a fast-changing market space. After his research, Quinn (2009) concluded that there is little practical advice in marketing literature for marketers on choosing variables, identifying segments, controlling performance in segments, or how to follow a process in doing all this. The research was based on segmentation practices from retail apparel managers in the United Kingdom. Lastly, Harrison and Kjellberg (2010) concluded that there could be other ways to segment markets than the segmentation process literature suggests. While marketing theory suggests that market segmentation is a determinant of marketing success, it is unclear to what extent marketing decision-makers share this sentiment. The most pertinent finding of the review in this paper is that there is no uniform way of market segmentation used by marketers. For some time now, marketing academics have urged their colleagues to come up with research that will be useful for marketing practitioners.

©2016 KKG Publications. All rights reserved.

INTRODUCTION

Market segmentation is regarded by many academic authors as a very important first step in getting the strategic marketing process underway (Armstrong & Kotler, 2015; Cravens & Piercy, 2013; Grewal & Levy, 2010). The market segmentation strategy must be an expression of an organisations marketing objectives. Market segmentation answers the two basic marketing questions of Which markets/customers to serve? and How will the organization serve them? Market segmentation precedes market targeting and positioning. This goes without saying that the better market segmentation is done, the better the chances to pair targeted markets with an organizations strengths and develop suitable positioning statements from this.

Since very few (if any) organizations can adopt a shot gun approach to targeting the market meaning that an undifferentiated segmentation strategy or mass marketing (Grewal & Levy, 2010) is used market segmentation must be done to target a few segments, a single segment or individual customers. This view is also supported by Hong (2012) when concluding that a mass marketing approach cannot satisfy the diverse needs of the modern consumer market. As a marketing theory, the interpretation of what market segmentation is, stayed the same over time. That is that there are groups of customers in a broad market that share the same needs and will react similarly to marketing stimuli (Harrison & Kjellberg, 2010). This corresponds to the earliest definitions of market segmentation. Market segmentation is considered to be the process of identifying homogenous customer groups within a defined market (Smith, 1956). There is a multitude of segmentation tools and methods to segment markets. This will be discussed later in this paper.

For some time, however, the suitability of segmentation tools for marketing practitioners was questioned by academics. It relates to the complexity of market segmentation techniques, barriers that can stop the segmentation process and what is called the academic/practitioners divide (Dibb & Simkin, 2009; Palmer & Millier, 2004; Reibstein et al., 2009). This research attempts to find answers to the suitability of market segmentation theory to

*Corresponding author: Johannes Hendrik Visser
†Email: vissejh@unisa.ac.za

Content from this work is copyrighted by KKG Publications, which permits restricted commercial use, distribution and reproduction in any medium under a written permission. Users may print articles for educational and research uses only, provided the original author and source are credited. Any further utilization of this work *must* maintain attribution to the author(s), the title of the work and journal citation in the form of a proper scientific referencing.

those that should benefit from it marketing practitioners. There is very little understanding what marketing practitioners use to guide them in their market segmentation efforts. There is thus a gap in the knowledge as to what marketing practitioners do to segment markets.

Objective of the Study

This research is still in its proposal phase. The objective of this paper is to share the research idea and research methods suggested for the project. A secondary objective is to network with researchers that share a similar interest.

LITERATURE REVIEW

The literature review will discuss aspects of market segmentation in the consumer and in the business-to-business market contexts. Attention will be given to criticism that exists about segmentation and how it is applied by marketing practitioners.

Segmentation in the Consumer Market

Generally segmentation is the consumer markets that follow a specific approach, which is to segment consumer markets according to demographic, geographic, psychographic, benefits sought, loyalty and geodemographic variables (Grewal & Levy, 2010). Marketers will seldom use only one variable, but will combine two or more variables to get a clear description of a segment. In analyzing the market segment for aspects such as size, several methods can be used, such as K-means algorithm clustering, artificial neural networks in sales forecasting and genetic algorithms clustering (Hong, 2012). Because of the complexity of most of these methods, researchers are always looking for segmentation techniques that are more intuitive and less complex to use. In this regard, Hong (2012) developed what is termed as the Taguchi tool for cluster analysis. This method uses a purchase-based segmentation model, where dependant variables such as the reasons for purchasing a product, (e.g. to improve health, to quench thirst, to calm down) with independent variables of age, income and geographical location are used. Concluding the research, Hong (2012) acknowledges that the Taguchi method does not satisfy the need for discriminating between cultural and economic backgrounds in the countries in which it is applied. Where the research was done, may be determining the usefulness of the Taguchi clustering method creating a dilemma for practical application outside the research context. This correlates with the research from Lee and Lee (2012) that observed that demographic, volume and geographic classification acts as descriptors of segments, and not as predictors of their behaviour.

An analysis of the usefulness of K-means clustering and an innovation of mixture regression modelling for market segmentation markets were done by Lee and Lee (2012). They have used four criteria as the benchmark for comparing the two segmentation tools. The criteria are external validity, model fit measured by R, segment profile definability and usefulness as a practical instrument. The research was done to validate the results of two clustering methods used to segment the market for cosmetics in the high-end market in Korea. The two segmentation tools that were selected for comparison were based on the convenience of use (K-means) and the mixed regression modelling was selected because it was the latest method on the market then and it was praised for it being the most powerful algorithm for market segmentation at the time the period prior to the research, which was published in 2012. From their research, they concluded that K-means clustering failed to uncover segments that could be useful in practice. The innovative alternative of mixture regression modelling, on the other hand, generated segments that had clear marketing potential.

The results of so many researches done to test the viability of market segmentation tools seem to be inconclusive as to which one works best. This supports the research problem as stated while marketing theory suggests that market segmentation is a determinant of marketing success, it is not clear to what extent marketing decision makers share this sentiment.

The South African Context for Consumer Segmentation

South Africa had a long tradition of using race, where consumers live (urban or rural dwellers) and income as main differentials to segment the South African consumer market (SAARF, 2015). In order to move away from this crude and political-based segmentation process, a new development called the South African Living Standards Measurement (LSM) tool was developed. In the late 1980s, the then South African Advertising Research Foundation (SAARF) set out to develop an index using a combination of variables which would be stronger than any single variable and thus more useful to marketers for market segmentation. This was done in conjunction with AC Nielsen Media International. The development used variables already in place in the SAARF All Media and Products (AMPS) survey that would be strong discriminators that could be used to segment the South African consumer population (SAARF, 2015).

Starting with an initial list of 71 variables, 13 were finally selected for their combined power in differentiating between respondents. After the clusters of describing variables were chosen the term Living Standards Measure was coined to describe segments (SAARF, 2015). The LSM purposefully excluded race, income and education, because the idea was that LSM segments should reflect access to products and services. The rationale for the segmentation tool was that it should segment the 35 plus million adult South Africans (people 16 years and older) into manageable and meaningful relatively homogenous sub-groups for consumer marketers (SAARF 2015). The LSM segments are essentially a measure of how people live based on living standards rather than income. Over the years, a number of changes and adaptations were made, mostly to keep up with changing times. For instance, in the early years of the development of the LSM tool, technologies such as cellular phones and Blu-Ray digital players did not exist and it had to be accommodated to reflect modern day societys absorption of technology. Today a total of 29 variables are used to discriminate between the LSM segments. To illustrate living standards, some of these variables are mentioned below (SAARF, 2015):

- Is there hot running water from a geyser in the household?
- Is there a domestic worker or gardener who works for the household?
- Does the household have a flush toilet?
- Does the household have an electric stove, microwave oven, tumble dryer, washing machine, free-standing refrigerator, television set, vacuum cleaner and home theatre system?
- Does the household have tap water?
- Does the household have a built-in kitchen sink?
- Does the household have a home telephone that is not a cellphone?

Today the SAARFs Universal Living Standards Measure (SU-LSM) as it is known, has a total of 14 LSM segments, starting from LSM 1 (the lowest LSM) to LSM 6, LSM 7 Low, LSM 7 High, LSM 8 Low, LSM 8 High and so on until LSM 10 High which is also the highest LSM. Apart from LSM groups, other segmentation descriptors for South African consumers include attitude, life stage and lifestyle (SAARF, 2015).

The development and use of the LSM segmentation tool is not without critique. The first source of criticism comes from Haupt (2015), who was intimately involved in the development of LSM up to its current status. His critique can be summarized as follows:

- Some users still use LSM segment categories as a proxy for race. While LSMs initially had a strong racial correlation, the impact of race had declined as South Africa adjusted to a more normal society after 1994.
- Another misconception is that LSM can be used to distinguish between incomes. Income will not determine behavior, as many of the products and services can be acquired with credit. A LSM category can thus not be used to discriminate between income and behavior.
- Marketers use the LSM segmentation in isolation. The truth is that LSM may be a good start to segment consumer markets, but segmentation becomes more meaningful when combined with other criteria, such as income and life stage.

Wortley and Tshwaedi (2015) argued that although the SU-LSM is based on robust and statistically sound methods, it should allow for the inclusion of wealth measures that is suited to traditional descriptors, such as number of head of cattle. In line with Haupt's comment about behavior, they further argued that a LSM cannot predict purchase intent. They further criticized marketers' use of LSM. Marketers' reference to race in the historical past created stereotypes that should be eradicated. This again follows Haupt's own criticism of the way in which marketers use LSM. Their criticism was thus more against marketers and marketing agencies' use of LSM and they pleaded for a more robust interpretation of the descriptors of LSM groups.

Ungerer and Joubert's (2011) research indicated that values (as defined by Schwartzs theory of basic human values) can be linked to purchase decision makers that are found across LSMs. They further found that purchase decision makers in different LSMs differed in the values which they most strongly pursue. According to Solomon, Bamossy, Askegaard and Hogg (Ungerer & Joubert, 2011), peoples set of values plays an important role in their consumption behaviour and subsequent purchasing activities. The reason being that consumers tend to buy products and services that will help them in attaining a value-related goal. They suggested that the current LSM segmentation approach could therefore be enriched by including values as part of the descriptors of the different LSM groups.

The criticism about changes in the way that segmentation is used by marketers echoes the sentiments of many authors (Millier, 2000; Leigh & Marshall, 2001; Greenley, Hooley & Saunders, 2004; Dibb & Simkin, 2009) who questioned the practice of market segmentation. To some extent, they all commented on the applicability of market segmentation theory in practice.

Segmentation of the Business-to-Business Market

As with the consumer market, there is no clear recipe to segment the market for business-to-business customers. For instance Harrison and Kjellberg's (2010) research attempted to increase the understanding of the business-to-business market segmentation process. They charted the process that was used by an industrial firm that developed radically new innovations and thus had no market segments. Market segments unfolded as the innovations started to be moved from research and development and into the market. They observed segmentation as an act of prediction (what a segment will probably do) rather than an act of description (what do the market segment characteristics look like). Their literature review suggested that the established approach to business-to-business market segmentation is based on an assumption that the market, customers and uses of the product are known. The outcome of a segmentation exercise is thus descriptions of segment characteristics. In the case that they based their research on, market segments emerged over years as market characteristics, usage patterns and customer/supplier relationships evolved. The market segments were not based on a clear description of market characteristics, but it was rather based on actual collaboration between the company and their customers. Interestingly, the market that was described for targeting initially fell away as the collaboration of other users of the innovation became more prominent. This approach moved away from the more traditional description-to-marketing-programme logic that is described by so many academic researchers, such as Hakansson and Ford (2002).

Hakansson and Ford's (2002) research focus was on business relationships and networks. The argument being that groups of customers in a specific relationship represent a specific market segment. Although linking to the research from Harrison and Kjellberg (2010), they emphasized the difficulty of managing relationships in modern day business network, purely because the networks can be so complex. Could this be another way of selecting a market segment? Based on the complexity of managing the relationship borne out of the many interrelationships that exist within networks.

Yet another technique used to segment business markets was discussed by Barry and Weinstein (2009) when they contemplated business psychographics as a possible market segmentation strategy. While psychographic segmentation is well known in the consumer market context (refer to the U-LSM segmentation discussion above), business psychographics are less well known. Their research has shown that organizations have cultures in the same way that consumers have personalities.

While psychographic segmentation has proved to be useful, the practical application of this approach was hampered by a lack of operational marketing plans around these dimensions. There are usually a number of individuals involved in the business-to-business buying process, which restricts the influence of one personality on the buying process. Their research was partly supported by researchers and authors such as McDonald and Dunbar (2004) who suggested that marketers should use psychographics as contributing to a successful segmentation process. Their research indicated that psychographic segmentation can assist sales management to devote the optimal amount of resources for communicating with and servicing their customers. Care was taken to understand buyer predispositions through an analysis of motivations, risk management behaviour and relationship styles. From this brief literature overview, it can be seen that market segmentation techniques in the business-to-business context vary from complex mathematical calculations to complex psychological insights in order to demarcate a large market into segments which share some common characteristics.

Critique

One of the biggest issues in market segmentation research was expressed by Wind (1978), when he mentioned the discrepancy between academic solutions and real world application for segmentation tools. Several years later Wedel and Kamakura (2002) confirmed that Wind's argument is still valid. More recently Hines, Quinn and Bennison (2007) have called for research that attends to the managerial value of segmentation.

These opinions were shared by researchers such as Foedermayr and Diamantopoulos (2008), who expressed a need for more market segmentation research that can be generalized, as most academic research on segmentation deals with how it should be done and not with how it is done. Other opinions were expressed by (Reibstein et al., 2009) when they asserted that marketing academics' neglect to develop applicable models for critical and strategic marketing issues have created a vacuum between academic and their marketing counterparts in practice. In a sense it also marginalized marketing as a discipline that should add value to executives who are looking for solutions to the problems they face in a fast changing market space. From research that was based on segmentation practices from apparel retail managers in the United Kingdom, Quinn (2009) asserts that there is little practical advice in marketing literature for marketers on how to choose variables, identify segments, controlling performance in segments or how to follow a process in doing all this. Harrison and Kjellberg's (2010) research concluded that there could be other ways to segment markets than what the segmentation process literature suggests.

Research Approach

The research problem is stated as "While marketing theory suggests that market segmentation is a determinant of marketing success, it is not clear to what extent marketing decision makers share this sentiment."

In light of the research problem stated and the areas of concern mentioned above, it is proposed that the following research objectives be stated to achieve the research objectives:

The primary objective is to determine how marketing decision makers execute market segmentation in practice in a B2B context.

Following on from the primary objective the following secondary objectives can be determined:

- To understand to what extent marketing practitioners use market segmentation theory to guide their market segmentation decisions. Marketing decision makers could include marketing managers, other managers, consultants and service suppliers such as advertising agencies.

- To understand who and what influences market segmentation decision making.
- To contribute to the body of academic knowledge regarding marketing segmentation.
- To identify new areas of research in the dynamic field of marketing segmentation.

The research problem statement indicates the need for an in-depth understanding of the segmentation inquiries that emerged over years from several authors. The need to attempt to get a deeper understanding of the market segmentation phenomena, positions the proposed research in a constructivism interpretivism (Saunders, Lewis & Thornhill, 2003; Ponterotto, 2005) philosophy. While several approaches and techniques were developed over the years, it is all done from the supply researchers and academics' side how to do segmentation. Very few attempts were made to analyze the problem from a demand side how is segmentation done by marketing practitioners? This ties in with the research and eventual conclusions from Harrison and Kjellberg (2010).

A need for more understanding how marketers segment markets was expressed by a number of researchers over time. The word understand implies the collection of information from respondents and developing theory or adding to theory by using the results from the data collected, which is regarded as an inductive research approach (Saunders et al., 2003). This approach is adopted in research situations where a problem has to be better understood and when interview data are collected and analyzed to formulate new theory. The choice of an inductive research approach also aligns with (Saunders et al., 2003) opinion that it is a good choice for a research topic that is fairly new, where there is ongoing debate and where it is more suitable to generate data and analyze them to reflect on the theoretical themes that may emerge from the analysis.

Case study research is often used when the concepts and variables are difficult to quantify and difficult to detach from their social context. It is a description of a management situation if a combination of what, when, how and why questions needs to be answered (Saunders et al., 2003). Case study research focuses on one or only a few entities, but in substantial depth (Lee, 1999). Yin, in Farquhar (2012), described case study research as an empirical enquiry that researches modern day phenomena in depth. Case study research is done in a real-life context and it is an ideal way to look at research questions which are closely connected to their context or situation.

In-depth interviews will be used to do the research. When using in-depth interviews to gather data, it allows for semi-structured discussions where opinions from respondents could be explored as they come up (Lee, 1999).

Contribution to the Body of Knowledge

It is foreseen that this research will contribute to the body of knowledge by providing answers to the research question. This will also be done in the South African context, which will shed more light on the research question in a specific context.

REFERENCES

Armstrong, G., & Kotler, P. (2015). *Marketing. An introduction.* Essex, UK: Pearson.

Barry, J., & Weinstein, A. (2009). Business psychographics revisited: From segmentation theory to successful marketing practice. *Journal of Marketing Management, 25*(3-4), 315-340.

Cravens, D. W., & Piercy, N. F. (2013). *Strategic marketing*. New York: NY, McGraw-Hill.

Dibb, S., & Simkin, L. (2009). Implementation rules to bridge the theory/practice divide in market segmentation. *Journal of Marketing Management, 25*(3-4), 375-396.

Farquhar, J. D. (2012). *Case study research for business.* London, UK: Sage Publications Ltd.

Foedermayr, E. K., & Diamantopoulos, A. (2008). Market segmentation in practice: Review of empirical studies, methodological assessment, and agenda for future research. *Journal of Strategic Marketing, 16*(3), 223-265.

Greenley, G., Hooley, G., & Saunders, J. (2004). Management processes in marketing planning. *European Journal of Marketing, 38*(8), 933-955.

Grewal, D., & Levy, M. (2010). *Marketing* (2nd ed.). New York: NY, McGraw Hill/Irwin.

Hakansson, H., & Ford, D. (2002). How should companies interact in business networks? *Journal of Business Research, 55*(2), 133-139.

Harrison, D., & Kjellberg, H. (2010). Segmenting a market in the making: Industrial market segmentation as construction. *Industrial Marketing Management, 39*(5), 784-792.

Haupt, P. (2015). *The SAARF Universal Standards Measure (SU-LSM). 12 Years of continuous development.*

Hines, T., Quinn, L., & Bennison, D. J. (2007). Making sense of market segmentation strategies: A fashion retailing case. *European*

Journal of Marketing, 41(5/6), 439-465.

Hong, C. W. (2012). Using the Taguchi method for effective market segmentation. *Expert Systems with Applications, 39*(5), 5451-5459.

Hooley, G., Piercy, N. F., & Nicoulaud, B. (2012). *Marketing strategy and competitive positioning.* Essex: UK, Pearson Education Limited.

Lee, T. K. H., & Lee, H. (2012). External validity of market segmentation methods A study of buyers of prestige cosmetic brands. *European Journal of Marketing, 45*(1/2), 153-169.

Lee, T. W. (1999). *Using qualitative methods in organizational research* (Vol. 1). Thousand Oaks, CA: Sage Publications.

Leigh, T. W., & Marshall, G. W. (2001). Research priorities in sales strategy and performance. *Journal of Personal Selling & Sales Management, 21*(2), 83-93.

McDonald, M., & Dunbar, I. (2004). *Market segmentation: How to do it, how to profit from it.* London, UK: Oxford University Press.

Millier, P. (2000). Intuition Can Help in Segmenting Industrial Markets. *Industrial Marketing Management, 29*(2), 147-155.

Palmer, R. A., & Millier, P. (2004). Segmentation: Identification, intuition, and implementation. *Industrial Marketing Management, 33*(8), 779-785.

Ponterotto, J. G. (2005). Qualitative research in counseling psychology: A primer on research paradigms and philosophy of science. *Journal of Counseling Psychology, 52*(2), 126-136.

Quinn, L. (2009). Market segmentation in managerial practice: A qualitative examination. *Journal of Marketing Management, 25*(3-4), 253-272.

Reibstein, D. J., Day, G., & Wind, J. (2009). Guest editorial: is marketing academia losing its way?. *Journal of Marketing, 73*(4), 1-3.

SAARF. (2015). No Title. Retrieved from www.saarf.co.za

Saunders, M., Lewis, P., & Thornhill, A. (2003). *Research methods for business students* (Vol. 3). Essex, UK: Pearson Education Limited.

Smith, W. R. (1956). Product differentiation and market segmentation as alternative marketing strategies. *Journal of Marketing, 21*(4), 3-8.

Ungerer, L. M., & Joubert, J. P. R. (2011). The use of personal values in living standards measures. *Southern African Business Review, 15*(2), 97-121.

Wedel, M., & Kamakura, W. (2002). Introduction to the special issue on market segmentation. *International Journal of Research in Marketing, 19*(3), 181-183.

Wind, Y. (1978). Issues and advances in segmentation research. *Journal of Marketing Research, 15*(3), 317-337.

Wortley, B., & Tshwaedi, M. (2015). *Transformation of advertising and marketing industry. Segmentation in South African marketing and advertising industries.* Retrieved from http://goo.gl/R8iv59

— This article does not have any appendix. —