MARKET SEGMENTATION – FUNDAMENTAL STEP IN MARKETING STRATEGY DEVELOPMENT

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Market segmentation is essential in the strategic planning of marketing activities. Due to their limited or insufficient resources, many companies have realised the difficulty of effectively serving all the prospects from the market and begin to develop marketing strategies oriented toward customer segments, with specific needs and long term profitability potential. The marketing strategy development has to be based on a well planned market segmentation activity which is a process of dividing a market into homogeneous groups of consumers with similar characteristics. This is possible by using different segmentation criteria that are best classified in four categories: geographic, demographic, psychographic and behavioural.

Key words: market structure, methods of segmentation, segmentation criteria, customer profile.

In order to understand the market structure in which they operate, businesses must find answer to a series of strategic questions: What criteria should be used to segment the market? What are the segments that provide more opportunities for the organization? What is the best combination of benefits and costs that has to be delivered to a targeted segment so that customers will perceive a superior value comparative with other competitive offers? What is the specific marketing-mix that can be used?

Market segmentation is essential in the strategic planning of marketing activities. The concept of segmentation recognizes the existence of significant differences between the customers and the prospects from the market, showing that not any segment may be the target of the marketing efforts made by a company.

The market segmentation may be described as a process of dividing a market into homogeneous groups of buyers with similar features (called market segments) according to certain criteria or variable of segmentation (geographic, demographic, psychographic and behavioural). For each segment which has resulted, the company designs a specific profile that summarizes the values obtained according to the criteria used for segmentation. The next step undertaken by the organization consist in the selection of the target market, which is a process of evaluating the profitability of each segment separately and the extent to which the points of attractiveness identified are in accordance with the strengths of the company.

The strategic decision of market segmentation cannot be based only on the possibility of partitioning the market in homogeneous groups of consumers. Market segmentation will be useful only to the extent that the efficiency and the effectiveness of the marketing activities are significantly influenced by the differences between the segments identified. From this perspective, in marketing theory and practice there is an agreement regarding a series of necessary prerequisites that have to be met in order to develop viable segmentation strategies. Thus, to be useful, market segments must be:[383]

- *Measurable*: The size, the purchasing power and the features of the segments can be measured.
- *Substantial*: Segments are large enough and profitable to deserve to be served.
- *Accessible*: Marketing activities targeted to specific market segments meet the company's objectives regarding the efficiency and effectiveness of the business. Segments may be served through the distribution and communication channels used by the firm.
- *Segments have distinct characteristics*: Segments are conceptually differentiated and respond in a different manner to different marketing programs.
- *Segments will have a specific value for the firm*: Companies can develop effective programs for attracting and serving the segments.

According to the results of the studies made by the British researcher Green, the principal **methods of market segmentation** can be classified in two major categories:[384] a priori segmentation and post-hoc segmentation.

The a priori segmentation assumes the existence of a significant correlation between the observable customer demographic features and their specific needs. In this case, consumers are assigned to segments based on a number of variables selected by the researcher, such as: age, gender, income, socio-professional status or the stage in the consumer life cycle. For example, the research of the financial needs of individuals aged between 25 and 40 years,

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383 Kotler, Ph., Managementul marketingului, Ediţia a IV-a, Editura Teora, Bucureşti, 2005, p. 367.
384 Cited in Machauer, A., Morgner, S., Segmentation of bank customers by expected benefits and attitudes, International Journal of Bank Marketing, 2001, Vol. 19, p. 6-8.

for women compared to men. The use of a priori segmentation is mainly based on theoretical principles. Therefore, there is a high probability that the standardized package of services offered to different   types of customers do not meet their specific expectation. This risk is caused by the fact that customers with a similar socio-demographic profile may present differences regarding their attitudes, expected benefits and life styles.

The post-hoc segmentation implies the analysis of a heterogeneous population, which is then broken into segments of consumers, structured on the basis of similar responses in relation to the objectives pursued in the study. For example, the study of all persons with higher education, which will be divided into segments according to the expected benefits in dealing with financial and banking institutions. The allocation of cases into different segments is then possible by the use of cluster analysis or factorial analysis.

Companies use different variables in the segmentation of their current and potential customers, according to their affiliation to the consumer market (individual clients) or business to business market (firms).

Segmentation criteria used in consumer market

The segmentation based on *geographic criteria* consists of dividing the market into different geographic units: regions, countries, cities, districts (buyers' provenance can be determined, for example, by zip code) and then applying a differentiated approach according to the particularities of local consumption. When serving clients in different areas of the world, the organization often faces with cultural differences, fact that requires additional efforts to adapt the content and the forms of communication used in the domestic market.

Demographic and socio-economic segmentation consist of grouping the buyers in homogeneous segments on the basis of sex, age, size and life-cycle of the family, income, occupation, level of education, religion and ethnic origin. Segmentation based on demographic variables presents advantages regarding the facility for the collection of information, indicating the profile of individuals who purchase goods and services from a certain company. At the same time, companies must take account of the limits of these criteria. For example, according to demographic premises, the differences in consumers' buying motivations may result from differences of individuals relative to aspects such as age, gender, income, etc. In reality, the demographic variables are weak predictors of purchasing behaviour for a wide category of products and services, since they are descriptive rather than causal. Consequently, customers and prospects who have similar or identical demographic characteristics can record significant differences on their lifestyles, preferences, motivations, expected benefits, etc.

The psychographic segmentation, contrary to the segmentation based on demographic variables, assumes that the differences noticed in individuals' buying behaviour are due to some internal factors or personal features which include: personality, values, attitudes, opinions, beliefs and lifestyle characteristics.

The segmentation based on *behavioural criteria* often uses the specific needs and expected benefits of different buyers in the consumption or the use of certain products and services. For example, buyers of cars differ significantly regarding the benefits or attributes they want; from fuel economy to performance, reliability or prestige. Behavioural criteria are considered to be among the most relevant in the process of consumer markets segmentation, providing important clues on the ways in which consumers take buying decisions, their preferences in the use of a particular channel of distribution, and also their apparent sensitivity to marketing stimulus (the extent that the purchase decision is influenced by price discounts, advertising, etc). Among the most commonly used behavioural variables are included:

- The *frequency of use* relative to certain products or services is a criterion which divides the buyers in categories such as: heavy users, moderate users, occasional users and non-users of the product or service in question. From the perspective of the organization, the most attractive segment belongs to the heavy users, due to their high buying potential and the significant contribution to company revenues.

- *The user status* is a variable that segments individuals in the following categories: potential users, first-time users, repeat users, ordinary users, occasional users or non-users. Knowing the status of users for the products or the brands of a company, offers important clues on the measures that have to be taken in order to stimulate, enhance or maintain consumption.

- *The loyalty of the buyers/customers* (from a behavioural perspective consisting of the repurchase actions oriented toward specific brands or products) makes the differences between: very loyal customers who buy the same brand every time (they buy exclusively the products of one company), customers who shows a medium level of loyalty or a moderate loyalty (they buy two or three competing brands) and disloyal customers (they are not loyal to any brand).

- *The consumption occasion/situation.* According to this criterion, the buyer' decision to consume or use a particular product is influenced by the specific situation in which consumption occurs. For example, depending on the time of day or the location where consumption takes place, an individual can consume a beer without alcohol during the day, a beer of high quality in a luxury restaurant or a popular brand at home.

A relatively new term introduced in the marketing literature is the "technographic criteria". These variables are used to describe the extent to which the existing customers and the prospects of a company are willing and able to use the latest technologies.[385]

Segmentation criteria used in business to business market
Business to business market is significantly different comparative with consumer market, both in terms of structure and features. Its distinct nature translates into specific needs and a more complex organizational buying behaviour. Market structured is characterized by a small number of customers, but more important from a value perspective. Also, organizational requirements are different in terms of size and quality standards and they are negotiated with a high level of professionalism.

Market specificity has a significant influence on the segmentation process, implying the use of distinct segmentation criteria. Therefore, organizational buyers can be classified into segments by applying the variables presented in table no. 1.

Table no. 1. Variables used in the segmentation of organizational customers

Variables	Segments
1. Geographic	
Region	Bucharest, North-west, etc.
County	Arad, Bihor, Cluj, Giurgiu, Harghita etc.
Environment	Urban, rural.
2. Demographic	
Industry	Quarrying, construction machinery, retail, telecommunications, etc.
Size of enterprise	Micro enterprises, small and medium enterprises and large corporations.
Number of employees	1-9 employees, 10-25 employees, 26-50 employees, 51-100 employees, 100-150 employees, 151-250 employees, 251-500 employees, 501-1000 employees, over 1000 employees.
Turnover	Less than 2 million Euro, 2 million-10 million Euro etc.
Structure of capital	Romanian capital, foreign capital, joint capital.
3. Operational	
Customer' technology	New, old.
User status	Non-user, first-time user, majority user, etc.
Customer' possibilities	Customers who requires services of a particular type and a specific value, customers who require a wide range of services, etc.
4. Purchasing methods	
Supply function of the organization	Centralized or decentralized supply.
Buyer-seller relationship	Occasional relationship, close relationship, relationships based on mutual trust, etc.
Purchasing criteria	Quality, price, technology, service, etc.
5. Situational factors	
Size of order	Less than 100.000 pieces, etc.
Emergency of order	The supplier can or cannot fulfil the emergency orders which occur.
6. Personal characteristics of the buyer	Age, social class, personality, loyalty to the organization, the inclination to risk, etc.

Source: Adapted by Anghel, L.D., *Business to Business Marketing*, Editura ASE, Bucureşti, 2004, p. 53 and Petrescu, E.C., *Marketing în asigurări*, Editura Uranus, Bucureşti, 2005, p. 95.

The level of investment and specific instruments established in relation with large customers, such as corporations will be different compared with those allocated toward small or medium-sized customers. Large enterprises are faced with complex organizational needs, requiring detailed knowledge and then developing specific solutions or products with a high degree of personalization.

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385 Concept introduced by Forrester Research and cited in Lovelock, Ch., Wirtz, J., Services Marketing. People, Technology, Strategy, 5th Edition, Prentice Hall, New Jersey, 2004, p. 360.

Regardless of the market to which they relate (consumer market or business to business market), companies should base their segmentation strategy on a set of relevant criteria, which provides a complex and unique profile of the overall preference and value expected by each segment of buyers. Information obtained is used by the company in evaluating the opportunities offered by different groups of buyers. In the next step, the strategic process continues with the selection of the segment or segments which are compatible with the strategic objectives and the specific capabilities of the company. After that, the management of the company will decide on the appropriate strategies for attracting and retention of the selected segments and will develop the right marketing mix consisting of adequate products and services, price levels, distribution channels, messages and methods of communication, in accordance with the specific requirements of each target segment and their long term profitability.

As a conclusion, information resulted from the activity of market segmentation is absolutely necessary to the organization in the process of designing customers' geographical, demographic psychographic and behavioural profile. However, customers' needs change over time due to the action of many factors, which are also difficult to quantify. Revenue growth, changes of the life cycle stage, changes in residence or workplace, are factors that often cause an evolution in customers' preferences and requirements, which translates into changes in their buying behaviour.

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