Market segmentation: trends and challenges

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Market segmentation is one of the fundamental principles of marketing given the fact that firms cannot normally serve all of the customers in a market because of diverse (heterogeneous) needs and preferences. The basic tenet of market segmentation is that a heterogeneous group of customers can be grouped into homogeneous groups or segments exhibiting similar wants, preferences, and buying behavior. The process enables companies to target specific market segment(s), design more suitable marketing mix variables (price, product, promotion, and distribution), and develop more effective positioning strategy. Market segmentation leads to better understanding of the customers and competitors, more effective allocation of resources, and capitalization on the opportunities (i.e. niche markets).

The segmentation procedure first involves selecting the most appropriate base to divide the overall market and the segmentation approach to be used. The segmentation bases include demographic, geographic (geodemographic), psychographic, and behavioral variables. There exists a hot debate over which segmentation base is more effective. Although this selection may be market- or product-specific and be identified based on how the segment(s) meet the criteria for effective segments (measurability, substantiality, accessibility, and actionability), the consensus and empirical evidence across fields demonstrate that the psychographic and behavioral variables are more effective than the demographic and geographic variables in terms of dividing the overall market. Particularly, two concepts have surfaced as being more powerful bases: lifestyle and benefits sought. The lifestyle concept, classified under psychographics, has been shown to influence both buying and communication (media) behavior, which is why it is very powerful. Although the basic dimensions of the concept are activities, interests, and opinions (AIO), some other variables are often employed to form lifestyle segments such as values, aesthetic styles, and life visions. Benefit segmentation has also been found an effective base because benefits are impelling and compelling reason behind all behavior. Benefits are what the product does for the customer. Benefits which people are seeking in consuming a product or experiencing a service explain why people are looking for certain attributes or features. The reason for its wide and extensive use is that benefits sought are closely related to values, motivations, and preferences. However, most of the empirical studies on benefit segmentation do not differentiate between benefits and features or benefits realized before or after the experience (Shoemaker, 1994). The selection of appropriate base is more challenging for segmenting international markets. Although culture has often been used as a segmentation base for international markets. Most studies have ignored subcultures or just compared different nationalities due to the difficulty of measuring cultural characteristics. International market segmentation represents a good area for further research in terms of identifying the most appropriate segmentation base.

The segmentation approach can be priori vs. posteriori and forward vs. backward. An a priori approach is one where the segments are chosen before the data are analyzed (i.e. male/female, non-users/first-time users/repeat users, etc). An a posteriori approach is one where the segments are determined by the data rather than by the researcher. This approach is usually associated with cluster analysis. A forward segmentation approach includes grouping consumer characteristics based on their similarity in demographics, personality, attitude, and benefits sought followed by discriminating groups by consumer response, (i.e. chosen product or service). A backward approach, on the other hand, involves grouping consumer response based on their similarity in choice of products and services followed by discriminating groups by consumer characteristics. No matter which approach is being utilized, they have inherent weaknesses from conceptual and practical standpoints when consumers have diverse demand for products and services. First, consumer characteristics are more likely to show a relationship with broad patterns of consumer response than a specific response. Second, the relationship will often be weak and unstable over time when consumers have diverse demands and choices. Several researchers in marketing and consumer behavior have emphasized that consumers may belong to multiple segments rather than one and only one segment. Their basic argument is that identifying consumers as a member of one, and only one, segment grouping seems technically appropriate but conceptually and practically questionable. When products and services are suitable for several types of usage situations, overlapping clusters are more appropriate because hierarchical clusters requiring exclusive group membership may be misleading. For example, Baloglu et al. (1998) introduced an alternative perspective on lodging market segmentation and analyzed consumer response (type of hotel) and product attributes preferred (consumer characteristics) simultaneously. A follow-up assignment method showed that a large number of respondents fell into more than one segment and revealed both overlapping and unique (mutually exclusive) product-benefit segments. Although different approaches (i.e. canonical correlation) and algorithms have been applied to reveal mutually exclusive and overlapping segments, there has been limited research on this interesting topic.

In recent marketing literature, one-to-one marketing (or mass customization) and the characteristics of postmodern consumers have been debated as factors posing challenges to the segmentation practices. There are those who argue that in the postmodern era the market is fragmented, where the postmodern consumer wants to experience the diversity and exhibit multiple self-images and lifestyles for different occasions. Consumers try several or many images, brands and products, both sequentially and simultaneously. Therefore, current segmentation practices may not be useful (Firat and Shultz, 1997). This, indeed, represents a significant challenge for marketers because it suggests that an individual may belong to different segments not only at the same time, but also at different points in time. It further justifies the need for more future research on overlapping segments in identification of multiple consumer images, benefits, and/or motivations. Perhaps the companies will be more likely
to use occasion-based segmentation. Another implication is that more empirical studies will be needed to examine the stability of segments overtime, which will require longitudinal and cohort studies. Loyalty as a segmentation base (attitudinal and behavioral) may provide interesting insights to differentiate true, spurious, and latent loyal customers.

Advances in information technology and computerization now allow companies to track customers individually and customize marketing efforts. This practice, so called one-to-one marketing, mass customization, or database marketing, does not eliminate or preclude market segmentation. Hospitality firms still need to strategically develop general marketing mix variables for different segments and tactically customize some components to each customer. The practice also provides many opportunities for data mining, which is the process of searching through customer data files to detect or discover patterns to guide marketing decision-making. Although the databases are mostly limited to demographic and behavioral data, data mining represents many opportunities for future research to discover new segmentation bases, identify niche segments, and to combine segmentation and one-to-one marketing.

The most popular multivariate statistics in hospitality and tourism segmentation research have been factor-cluster analysis and discriminant analysis. The emerging statistical tools available to segmentation researchers, despite their limited use, are Neural Network models and CHAID (Chi-Square Automatic Interaction) (Mazanec, 1999; Chen, 2003). Some neural network models even allow researchers to determine a firm's optimal segments and positioning for each segment simultaneously. By using CHAID, one can identify the most appropriate segmentation variable to start with and optimum segments based on a trade-off between segment size and variance. These tools would be particularly useful in identifying the segments, modeling within segments, and data mining research.

References
