

## A Study of Market Segmentation – Relevance And Association of Segmentation with Other Components of Marketing

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**ABSTRACT:** Segmentation is an essential pre-requisite of undertaking various activities in marketing. Much of research has happened on the concepts of segmentation, while in our research paper we attempted to address the broad concepts of segmentation and the association and relevance of segmentation (market and customer segments) with several other critical components of marketing. Successful organizations follow the concepts of segmentation and the relevant strategies discussed in the paper, where in they lead them to a sustainable growth path as opposed to unorganized/non-professional entities which vanish and disappear in no time. We conclude explaining the limitation of the study and scope of extending the application of the concepts and model discussed to other functional activities of businesses.

**Keywords:** Market and Customer Segmentation, Data mining, SCM CRM, CEM

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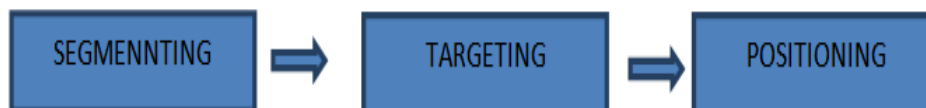
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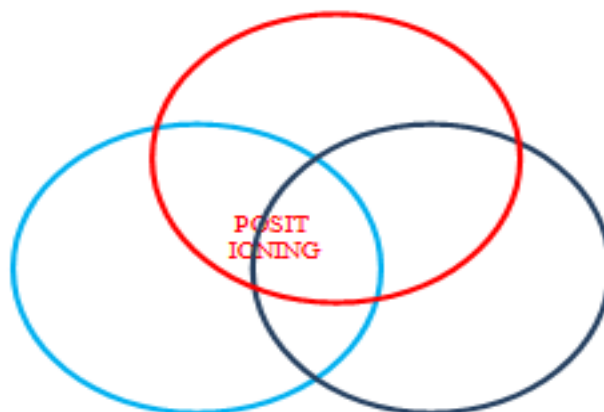
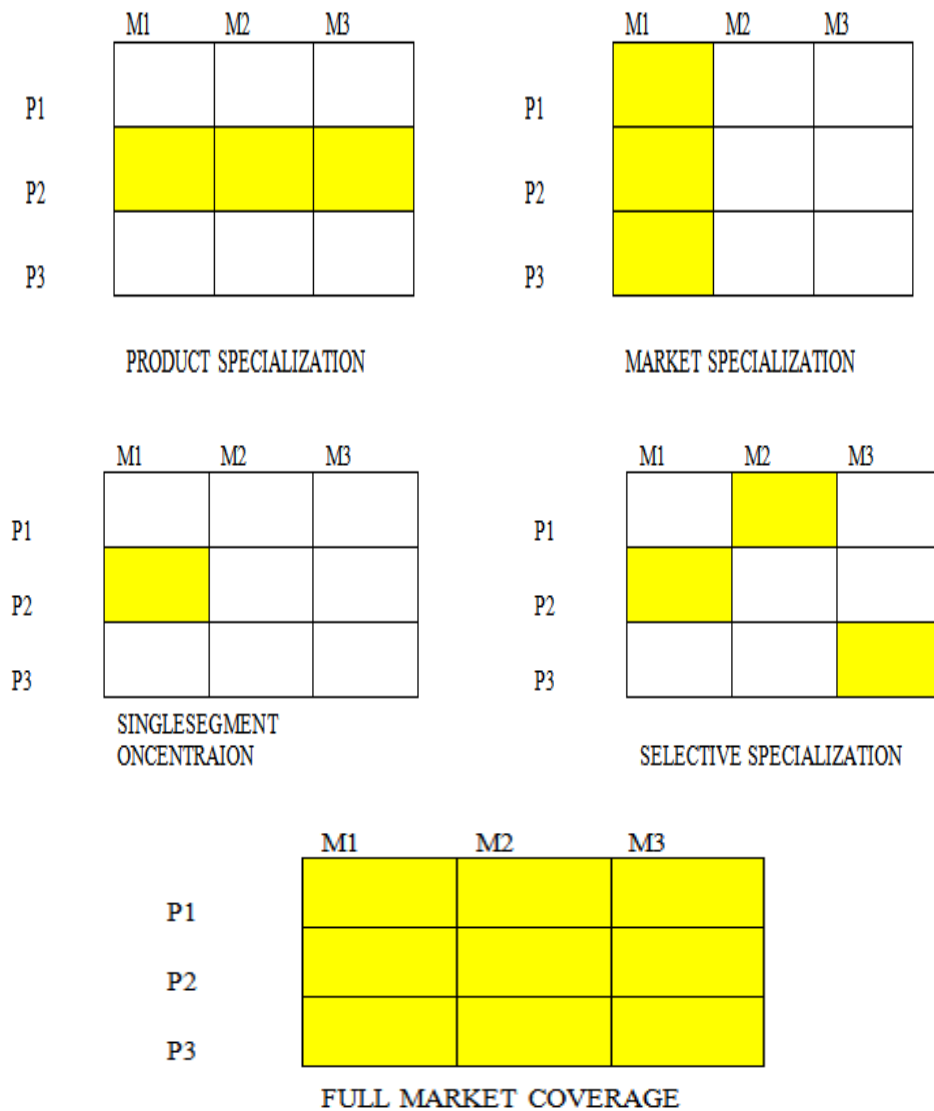
### I. INTRODUCTION

In traditional marketing approach, the marketer develops a product and then goes in search of customers who can buy it. Anyone who has the buying power and willing to pay transacts and the marketer closes the deal. In the advanced stage of marketing, the marketer identifies the demand of products with profitability so that he goes in search of the markets and set of customers who intend to buy it and share the feedback for improvisation of their needs to the marketers and willingness to pay premium for meeting the extra needs.

The marketers follow the sequence of identifying the potential customers, profiling them, targeting them and finally positioning them in the minds of the customers. This is typically known as STP.



Segmentation talks about how the marketers classifies or groups the heterogenous market into homogenous markets in which a set of customers have a similar need or demand pattern. While segmentation explains whom to target, targeting explains how to target these markets. Positioning talks about marketers' efforts in placing the brand or offering taking into consideration the customer perceptions.



**Figure 1:** Positioning Substrates for Printed Paper Cups

Here the red circle denotes, the customers who prefer to use disposable cups while using hot and cold beverages, the blue circle denotes customers who prefer to go for food-grade substrates and the pink circle denotes who love aesthetics and prefer to have the brand logo printed on the cups. Marketer who wants to sell paper cups with food grade and high quality printable substrates targets and positions the intersection of the three circles where the customers have all the desired needs for using the substrates being marketed.

In the subsequent sections, we discuss the literature reviewed, followed by the various components of marketing that have an association and relevance to Market/customer segmentation.

## **II. LITERATURE REVIEW**

American Marketing Association defines marketing as “Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners and society at large (approved July 203) [2] Philip Kotler defines marketing as a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value to each other. (3) The Marketing concept proposes the reason for success lies in the company’s ability to create, deliver and communicate a better value proposition through its marketing in comparison to its competitors for its chosen target segment. The market segmentation is a process to divide customers into homogeneous groups which have similar characteristics such as buying habits, life style, food preferences etc.[4].

Brewer and Speh (2000) have developed a model for evaluating supply chain performance using balance scorecard. (5) Betchel and Jayaram (1997) claim that integrated measures, which are cross functional have to be used as they avoid optimization at one point in the chain without considering the potential consequences at other points on the chain.(6) Many companies have not succeeded in maximizing their supply chain’s potential because they have often failed to develop the performance measures and metrics needed to fully integrate their supply chain to maximize effectiveness and efficiency. Gunasekaran et al. (2004) developed a framework to promote a better understanding of the importance of SCM performance measurement and metrics (7) Maltz et al. (2003) developed a performance evaluation frame work named dynamic multi-dimensional performance (DMP) (8).

There are two distinct orientations to product policy, i.e., market segmentation and product differentiation (Smith 1956) (9) Market segmentation refers to making product decisions after studying and characterizing the diversity of wants in a market place, while product differentiation refers to product decisions taken relative only to a firm's competitors. This revolves around a search for groups of consumers from the general population, and sometimes even customers, with similar within-group and different across-group response (see Frank, Massy and Wind, 1972, Wedel and Kamakura2000(10).Thus market and customer segmentation always is a continuous process of bringing out Heterogenous sets with in a group of Homogenous markets/segments. The effectiveness of the segmentation keeps improving with the narrowing down of this process of bringing down heterogeneity within the homogenous set with the number of iterations.

Comprehensive models of consumer behaviour have appeared in the marketing literature for more than thirty years and describe a complex, multi-event behavioural process (Nicosia 1966 (11). A recent literature on statistical techniques for market segmentation that uses sales scanner data to make inferences about brand preference and attribute importance (Kamakura and Russell 1989 (12). "segmenting" consumers by their shopping behaviour or responsiveness to marketing mix elements may seem out of touch with the potential for mining today's data bases. Understanding where and how prospects shop is one facet of the task of market definition, but not market segmentation. Peacock (1998) identifies several potential uses that data mining has in the area of marketing including customer acquisition, customer retention and customer abandonment and market-basket analysis. (13)

## **III. OBJECTIVES OF THE STUDY**

The objectives of the study are as follow:

To find out the significance of Market Segmentation/Customer segmentation and its relevance and association with various other components of Marketing.

### **3.1 Hypothesis**

H(0): Segmentation has no relevance to other components of Marketing -no impact on them.

H(a): Segmentation has a greater relevance to other components of Marketing and it impacts them significantly.

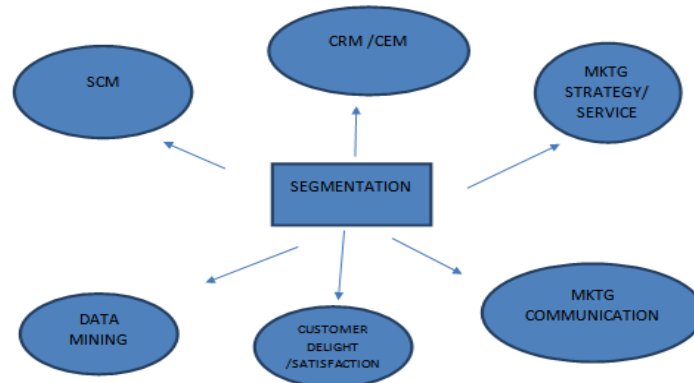
### **3.2. Research Design**

We went for a thorough study of the literature available on Segmentation and the various components of marketing which have a great relevance to segmentation. We even collected the primary data for a cross-check of the relevance of some of the components viz. customer satisfaction levels and used statistical tools using Mintab for evaluating certain hypotheses, but not able to share them for reasons of confidentiality as well as confining the scope of the research to the objectives cited.

### **3.3 Data Collection**

3.3.1. Primary Source The data was collected directly from respondents with the help of structured questionnaires.

3.3.2. Secondary Source The secondary data was collected from internet and references such as magazines, Journals etc.



**Figure 3:** Model indicating Segmentation and its relevance to certain marketing concepts

### **Data Mining And Segmentation**

Data mining is the process of extracting previously unidentified and actionable information from large, complex sets of data. Segmentation is a key data mining technique. A set of customers reacting in a similar way to a marketing approach is known as a Segment. We can predefine the characteristics of the segments in advance and allocate customers to these segments. This is called priori segmentation. On the other hand, if we use tools and software to analyse the data to extract the naturally occurring clusters of behaviours, these clusters form the segments and this process is called Clustering in data mining. Clustering is a type of exploratory data mining used in application oriented areas like machine learning, classification and pattern recognition.

In this way, Data mining is the first component which has high relevance to segmentation of the customers -which forms the basis for targeting the customer base to be serviced. By segmenting the markets and customers, marketers can target their customers in an effective and efficient way. Prof Archana Raje and Dr.R.K.Srivastava have , in their research study, unfolded the relationships and linkage between data mining and customer segmentation(14) Properly built datamining tools enrich the segmentation studies effectively.

### **Supply Chain Management And Segmentation**

Manufacturing at peak capacity is only profitable when goods can be distributed rapidly from manufacturer to consumer through an efficient distribution system. Supply chain efficiencies shall be geared to service based on the segmentation of customers. supply-chain logistics that cater to the size and location of the receiving stores. Planning and setting up a distribution network for a variety of different manufacturers whose end-users range from major high-frequency stores to small stores catering to cosmetics, fragrances and personal skin care products. With the right partner for supply chain management and distribution, in line with the segment, organizations will certainly strengthen their bottom line.

### **Marketing Communication And Segmentation -4ps, Product Development And Campaign**

Organizations need to have their marketing communications centered and focus around the essential 4Ps of marketing (product, price, promotion and physical distribution/place). In this way, segmentation is an essential pre-requisite of their marketing communications. Without STP (segmenting, targeting and positioning), marketing communications can not be effective. Segmenting helps to focus on the right product and service attribute for the right market/customer segments from the total universe. This also saves undesirable promotion expenses in the form of advertisements since the communications reach on dot to the specific customer/markets targeted and the campaigns of new product developed can be centered around the segmented and positioned set of customer-market segments.

Marketing communications also have a bearing on place-and it needs to have the local tastes and preferences of the products since the preferences will change from one place of distribution to other (more so in FMCG Category). Segmentation is the conceptual tool used to focus and achieve the needs of the manufacturer, the retailer and finally the end-use, the consumer.

### **Marketing strategy/Service and Segmentation:**

Our exploratory study reveals that it is not just enough to have the market and customers segmented properly. Segmentation has a higher bearing only when the organization adopts the right strategy to service the right segment. For example, an organization has customer segments with Just-in-time deliveries, Loyal customers and value for money adopting a uniformstrategy will render the organization lose the customers as well as incur losses. On the other hand, the successful organizations strategize to keep adequate inventory for the Just in time customers near to the customer place, (seek a higher price), support the loyal customers in all

aspects including technical support required and right campaigns depicting high value added for the customers seeking value for money.

#### **Customer relationship management (e-CRM/CEM) and Segmentation:**

Customer relationship management and customer experience management are the emerging areas of marketing which focus on nurturing selective segments. Segmentation helps in identifying the Loyal customers and highly profitable customers from the rest of the customer base. Organizations shall be customer centric for such segments in every aspect of touch points. Research reveals that the cost of acquiring new customers is ten times more than the cost of retaining the existing profitable customers. The service levels of such set of customer segments shall excel in customer experience management. According to Prof.M.L.SaiKumar, Dr.V.Venkata Ramana and Dr.G.Somayajulu, a number of research studies show that “a small segment of customers can tilt the whole business and that the companies have discovered that they need to shift the focus from branch to customers” (segmented and targeted customers).(15)

A 360degree understanding of the customer requirements will render the organisations to service the customer needs based on the depth of relationship and this results in customers having a better experience in all tough points.

#### **Customer satisfaction /customer delight and Segmentation:**

Customer satisfaction strategy of organizations often fail because of ignorance of implementation problems. An internal market perspective helps to identify the barriers arising inside the organizations which directly mirror the external market. Workshop and survey information confirm the existence of powerful but hidden implementation obstacles in the internal market. -Nigel F.Piercy (1995) (16) Customer satisfaction provides a lead indicator of customer purchase intentions and Loyalty (Farris et al 2010) (17).

Organizations should be keen to note that customer dissatisfaction results in customer defection and long-term losses. To be customer centric, organizations shall constantly monitor the customer satisfaction levels and need to find the barriers of implementation strategies, let it be external market oriented or internal market oriented and try to overcome the barriers.

### **IV. HYPOTHESIS TESTING**

Based on the exploratory research on segmentation and its association and relevance to various other components of marketing, we evaluated the null hypothesis that segmentation has no relevance to other components of marketing and does not impact them and results discussed in the subsequent part of research findings.

### **V. RESEARCH FINDINGS AND CONCLUSIONS:**

Our exploratory research reveals that the null hypothesis, which states that segmentation has no relevance to components of marketing and does not impact them, could be rejected. We can thus conclude that segmentation has significance on various other components and impact them substantially.(as mentioned, the statistical tools also supported our argument viz customer satisfaction levels increased when the organization followed the right segmentation and strategies developed for servicing them specific to the segments -the results are not a part of this paper -which may be a part of our subsequent research articles).

The contribution of this paper is twofold. Firstly, we present a literature survey on the concepts of segmentation and their association with other components of marketing. Secondly, a frame work/model is offered that suggests aligning market-customer segments with components like Data mining, SCM, CRM/CEM, Marketing Communication, and Customer Satisfaction and Customer delight.

### **VI. RECOMMENDATION FOR MARKETERS**

It is important to note that Segmentation has a complex networking with other components of marketing as mentioned in our research study and model. Further it is to be noted that though the scope of the research is confined to marketing function, it may be extended to other functions viz procurement/purchase, finance and project -where in strategies can be drawn keeping the target customer segments in mind for the business to excel right from project stage till commercial production of new product designs.

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