Module - 3

CONSUMER BEHAVIOR

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Introduction:

The traditional way of doing business was Mass Marketing which meant offering a standardized product to all the consumers or the entire market. However, it was increasingly realized that customers are varied and unique, with different needs, wants and preferences. Marketers understood that they cannot satisfy the entire range of customers with the same product and service offering. This led to Target marketing or STP i.e., Segmentation, Targeting and Positioning. STP involves dividing the potential market into distinct sets and sub-sets of consumers and then focusing on one or more segments that can be reached with a marketing mix. The marketer first identifies like-minded clusters of groups that are homogenous within and heterogeneous with other groups (segmentation); then, he selects the most viable segment(s) (targeting); finally, a distinctive image of the product/service offering is created in the mind of the consumer that helps the latter relate to the former (positioning).
LESSON – 5
MARKET SEGMENTATION AND POSITIONING 1

Instructional Objectives

After completion of this lesson, the student shall know about:

3.1 Aggregate Marketing and Market Segmentation
3.2 Target Marketing
3.3 Market Segmentation
3.4 Alternatives available for Segmentation
3.5 Basis for Segmentation
3.1 AGGREGATE MARKETING AND MARKET SEGMENTATION:

The marketer could either opt for aggregate marketing wherein he could treat the entire population as a single segment, or he could go in for a market segmentation wherein he would identify groups of like minded customers who were similar on one or more base(s) and cater to one or more of such segment(s).

a) Aggregate Marketing: Earlier the assumption was that customers have similar needs and wants and can be satisfied with a standardized product/service offering. Thus, a standardized product was produced and distributed with a single marketing program or the same marketing mix. This led to a focus on mass production and distribution, which resulted in lower costs; finally resulting in lower prices and higher margins. Aggregate marketing is also termed as mass marketing and undifferentiated marketing.

b) Market Segmentation: The assumption underlying market segmentation is that customers are unique. They have different needs, wants and preferences. There do exist diverse customer groups homogenous on certain bases within, but heterogeneous among each other. So, instead of a single standardized product offering, the product and service offerings need to be designed according to the needs and wants of the segment so as to satisfy them better. The marketer’s assumption is that because of the homogeneity that exists within the members of the group, they would react similarly towards a product and service offering and behave likewise to a corresponding marketing program.
3.2 TARGET MARKETING:

The traditional way of doing business was Market Aggregation or Mass Marketing. This meant offering a standardized product to all the consumers or the entire market. However, it was realized that customers are unique, with different needs, wants and preferences across people as well as across situations. Marketers understood that they cannot satisfy the customers with the same product and service offering. Market aggregation gave way to Target marketing and finally Target marketing is giving way to Customization. The benefits of Target Marketing were understood by the marketers as they realized that it is not possible to cater to the needs, wants and preferences of the entire market. So the marketer would target a segment or a few segments, design the marketing mix accordingly and serves the segment(s) efficiently and effectively. In this way he could meet customer needs in a better way.

Target marketing or STP i.e., Segmentation, Targeting and Positioning involves a major exercise for a marketer to start with. Segmentation involves Identifying distinct groups of buyers who are homogenous within but heterogeneous between each other; Targeting involves evaluating the viability of each segment, and then selecting one or few market segment(s) to serve better and in a superior way. Positioning involves creating an image in the minds of the target market about the product and service offering; this image should relate to the need/want as well as portray uniqueness and/or superiority than other competitive offerings.
Segments pre-exist a marketer; they already exist. The marketers task is to identify the most lucrative and profitable one (s) and target them. He has to then create a unique marketing program that would be most effective for that particular segment.

A ‘market segment’ may be defined as a group of customers who are similar to each other on certain bases; they are expected to behave in a similar manner towards a product and service offering and towards a single marketing program.

“Market segmentation” is the process of identifying distinct groups and or subgroups of customers in the market, who have distinct needs, characteristics, preferences and/or behaviours, and require separate product and service offerings and corresponding marketing mixes.

The marketer experiences a heterogeneous market, with varying customers with diverse needs, preferences and behaviours. However, a certain degree of homogeneity within groups and/or subgroups of customers on certain bases and dimensions may be identified. This leads to the identification of a segment. A market segment exhibits homogeneity within the group and heterogeneity outside. Further, each of the segments can be effectively served with a different marketing mix.
**OTHER DEFINITIONS:**

“A market segment consists of a group of customers who share a similar set of needs and wants”.
-Kotler

“Market segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix”.
- Schiffman and Kanuk

Segmentation could take place for both Consumer markets as well as for Business markets.

A Consumer Markets is defined as an end user market; the product and service offering is bought by the consumer for his personal use. This is also called Business to Consumer market, or B2C market. Examples: i) Bread is bought for end consumption and usage. (ii) Ceiling fan.

A Business Markets is defined as a market that buys, transforms/processes and sells further, either for further transformation/processing or, for consumer use. This is also called a Business to Business market, or B2B market. Examples: i) Wheat is bought by a baker from the farmer (B2B). He transforms it into bread. ii) Copper wires are bought by an electronic company which uses these in the manufacture of ceiling fans.
3.4 ALTERNATIVE LEVELS/TYPES AVAILABLE FOR SEGMENTATION:

Segmentation can take place at various levels; Depending upon the company policy and the segment attractiveness in terms of growth and profitability, a marketer could choose out of a variety of options. The various levels/types include single segmentation, differentiated segment marketing, concentrated marketing and micro marketing. Each of this is explained as follows:

a) **Single Segmentation:**
This form comprises one segment only. The marketer caters to the entire market with a single offering and the same marketing mix. This is similar to mass marketing or undifferentiated marketing. All the consumers are treated the same. Examples: products like salt, sugar and staples.

b) **Differentiated segment marketing:**
This implies selection of two or more segments. The marketer approaches these segments with differentiated offerings and corresponding marketing mixes and programs. Examples: Shampoos and other toiletries.

c) **Concentrated marketing:**
The marketer caters to just one segment although the product could appeal to others. This is generally a sub-group within the whole segment. The process includes targeting a small segment with a specialized mix meant only for that segment. This form of segmentation is also called focused or niche marketing. Examples: Sports channels on TV, Religious channels on TV etc.

d) **Micro-marketing:**
This could assume two forms, viz., local marketing and individual marketing.
- Local marketing: The marketer caters to local customer groups. Example: movies dubbed in vernaculars or local languages.
- Individual marketing: The marketers caters to the customer individual and personalizes the marketing mix. So the segment comprises one individual and it is individual to individual marketing. This is also called customization. Example: Holiday packages designed by travel agents.
Table 1: Alternatives available for Segmentation

<table>
<thead>
<tr>
<th>No.</th>
<th>Type</th>
<th>Meaning</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Segments</td>
<td>Large groups of people similar to each other on certain criterion</td>
<td>- Tata group of hotels:</td>
</tr>
<tr>
<td></td>
<td>(Differentiated segments)</td>
<td></td>
<td>- Taj Hotels vs. Ginger (Premium vs. Economy)</td>
</tr>
<tr>
<td>2</td>
<td>Concentrated marketing</td>
<td>Very narrow in nature</td>
<td>- Astha, Sanskar TV channels cater to a group of people interested in religion and spirituality;</td>
</tr>
<tr>
<td></td>
<td>(Niches)</td>
<td></td>
<td>- Fashion designers (Manish Malhotra, Rohit Bal) cater to a very small segment.</td>
</tr>
<tr>
<td>3</td>
<td>Micro-marketing</td>
<td>One to one marketing:</td>
<td>- Dell, Amazon customize their offerings as per individual desires.</td>
</tr>
<tr>
<td></td>
<td>(Individual)</td>
<td>Customization</td>
<td>- Fashion designers (Manish Malhotra, Rohit Bal) cater to celebrities.</td>
</tr>
</tbody>
</table>

3.5 BASIS FOR SEGMENTATION:

a) Segmentation of Consumer Markets:

The bases for segmentation of consumer markets may be divided into two broad categories of variables, demographic variables and behavioral variables.

i) Demographic variables: these comprise: demographics, geography and psychographics.

ii) Behavioral variables: these comprise the day to day consumption pattern and behavioral dimensions like consumer awareness and knowledge, feelings and disposition, purchase and usage etc. of a product and service offering.

Each of these are described and examples illustrated in the following tables.
Table 2: Demographic Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Identifying segments on the basis of any of the following bases</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Bases</strong></td>
<td><strong>Examples</strong></td>
</tr>
<tr>
<td>i) age</td>
<td>-Infants, Kids 3-5, 8-12 Teenagers, Adults (Example: Clothes, Toys)</td>
</tr>
<tr>
<td>ii) gender</td>
<td>-Men, Women (Example: Clothes, Cosmetics)</td>
</tr>
<tr>
<td>iii) income</td>
<td>- &gt;50000, 50000-1 lac, 1-2 lac, 2-5lac, &lt;5 lakh (Example: Cars)</td>
</tr>
<tr>
<td>iv) education</td>
<td>-High School, Intermediate, Graduation, Post-graduation</td>
</tr>
<tr>
<td>v) occupation</td>
<td>- Blue collared, White collared; Business, Professional (Example: Airline tickets: Business, Economy class)</td>
</tr>
<tr>
<td>vi) family size</td>
<td>- Single, Couple, Couple and 2 kids, &lt; 4, &lt; 6 (Example: Large and small packaging: Foods)</td>
</tr>
<tr>
<td>vii) family life cycle</td>
<td>- Single, Married, Full Nest I, Full Nest II, Empty Nest I, Empty Nest II, Solitary (Example: Large and small packaging: Foods; Insurance)</td>
</tr>
<tr>
<td>viii) generation</td>
<td>- Generation X (born between 1965-76), Generation Y (born between 1983-2003) (Example: Music and Film Cds and DVDs)</td>
</tr>
<tr>
<td>ix) Social class</td>
<td>-Upper class, Middle class, Lower class (Example: Cars, Hotels)</td>
</tr>
<tr>
<td>x) religion</td>
<td>- Hindus, Muslims, Christians, Sikhs (Example: foods: Halal)</td>
</tr>
<tr>
<td>xi) nationality</td>
<td>- Indians, Nepalese, Sri Lankans, Pakistanis</td>
</tr>
<tr>
<td>xii) culture</td>
<td>- North Indian, South Indian</td>
</tr>
<tr>
<td>xiii) sub-culture</td>
<td>- Tamilian, Keralite, Carnatic, Telegu (Example: Food by Sagar ratna)</td>
</tr>
</tbody>
</table>
### Table 3: Geographic Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Meaning</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geography</td>
<td>Identifying segments on the basis of geographical or territorial units</td>
<td>Bases</td>
</tr>
<tr>
<td>i) Location / Country</td>
<td>Local/Domestic or International (Example: All MNCs)</td>
<td></td>
</tr>
<tr>
<td>ii) Region</td>
<td>North, West, South, East</td>
<td></td>
</tr>
<tr>
<td>iv) City/Metro density of population</td>
<td>Urban Semi-urban, Rural (Example: Hospitals in Cities, Polyclinics and dispensaries in Villages: Apollo Hospital and Pharmacies)</td>
<td></td>
</tr>
<tr>
<td>v) Climate</td>
<td>Hot, Cold, Humid, Rainy (Example: Clothes: Woolen garments)</td>
<td></td>
</tr>
<tr>
<td>vi) Terrain</td>
<td>Hilly, Plain, Rocky (Example: Two wheelers and Motorbikes)</td>
<td></td>
</tr>
</tbody>
</table>
### Table 4: Psychographic Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Meaning</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>ii) Perception</td>
<td>Low risk, Moderate risk, High risk</td>
<td>(Example: Innovators vs. laggards)</td>
</tr>
<tr>
<td>iii) Personality</td>
<td>Aware or Unaware.</td>
<td></td>
</tr>
<tr>
<td>iv) Attitude</td>
<td>Positive, Negative; Loyal to one or many products</td>
<td></td>
</tr>
<tr>
<td>v) Involvement</td>
<td>Highly involved customers, Low involved customers; Brand loyalists, Information seekers, Routine brand buyers and, Brand switchers</td>
<td></td>
</tr>
<tr>
<td>vi) Lifestyle:</td>
<td>AIO</td>
<td></td>
</tr>
<tr>
<td>Activities:</td>
<td>Work, Hobbies, Vacation, Shopping, Entertainment, Sports (Activity: A)</td>
<td></td>
</tr>
<tr>
<td>Interests:</td>
<td>Job, Home, Family, Fashion, Food and culinary, Recreation (Interests: I)</td>
<td></td>
</tr>
</tbody>
</table>
## Table 5: Behavioral Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Behavioral Bases</strong></td>
<td>Identifying segments on the basis of any of the following bases:</td>
</tr>
<tr>
<td>i Consumer awareness</td>
<td>Unaware, Aware, Informed, Interested, Desiring/enthusiastic</td>
</tr>
<tr>
<td>ii) Benefits sought/uses/ needs/</td>
<td>Basic functional, Safety/security, Affection/Social need, Esteem/Status/ Sense of Self–worth motivation</td>
</tr>
<tr>
<td>(Example: Cakes and pastries: Normal ones for snackers and Sugar free, for calorie conscious and diabetics; Toothpaste: Forhans for Gums; Peposdent: Fight tooth decay; Close up: Prevent bad breath)</td>
<td></td>
</tr>
<tr>
<td>iii) Buying occasions/ Purchase situations</td>
<td>Morning, Night (Example: now 24 hours) Weekday, Weekend (Example: Movies released on weekends) Occasions, Seasons (Examples: Greeting Cards: all occasions) Leisure, Urgency (Example: Mail post versus Courier Service)</td>
</tr>
<tr>
<td>iv) Buying/usage frequency</td>
<td>Routine, Frequent, Seldom OR Routine, Emergency (Example: Calcium Tablet versus Band Aid)</td>
</tr>
<tr>
<td>v) Buying readiness stage</td>
<td>Unaware, Aware, Informed, Interested, Desiring, Intending, Demanding, Buying</td>
</tr>
<tr>
<td>vi) Loyalty status</td>
<td>Non-users, First time user, Regulars, Ex-users OR Hard-core loyals, Split loyals, Shifting loyals, Switchers</td>
</tr>
<tr>
<td>vii) Usage rate</td>
<td>Heavy half; Light half OR Heavy, Medium, Light, Non-users (Example: Joint family and nuclear family: Consumption of cooking oil)</td>
</tr>
<tr>
<td>viii) Shopping orientation</td>
<td>Economic, Convenience and leisure, Status (Example: Economic: Deal prone and bargains: Small shops; Convenience and leisure: Departmental stores Status: Malls and Brands)</td>
</tr>
</tbody>
</table>
HYBRID SEGMENTATION:

While individual bases for segmentation exist, the market is generally segmented on a combination of bases. Commonly used bases are combination of (i) psychographic/demographic (ii) geodemographics and, (iii) VALS: Values and Lifestyles.

b) Segmentation of Business Markets: Business markets are large in nature, with fewer, yet larger buyers. Purchases are bulky and often high valued. The buying process is complex and highly professional through proposals, quotations, tenders, contracts, etc. Buying is influenced by a committee of people referred to as a buying center, which comprises people from various divisions and departments. The people comprising the buying center have diverse backgrounds which result in varied perspectives and orientation towards buying. This is because With characteristics that differentiate a business market from consumer markets, it is logical and deductive that the bases for segmentation of business markets are different from that of consumer markets. Business markets could be segmented on basis of demography, geography, purchase approach and orientation, purchasing orientation, and, personal variables. These are discussed below:

i) Demographic variables: This implies the
   - type of industry;
   - the size of the company;
   - technology used etc.

ii) Geographic variables: Location.

iii) Purchasing approach and orientation: This basis includes
   - consumption and usage rate (i.e is the order size small or bulky);
   - buying situations (straight rebuy, modified rebuy, new-task);
   - loyalty and partnerships;
   - purchasing orientation (i.e. buying/transaction/price orientation; or consultative/solution orientation; or, procurement/quality orientation; or, strategic value orientation);
   - purchasing criteria: Price, Quality, Service
iv) **Purchasing methods:** The basis includes

- the decision unit and/or the buying center influences: Power balance and equation of various departments in the buying center: i.e. production dominated or R&D dominated or purchase dominated?
- the purchasing function: centralized or decentralized;
- transactional exchanges (short term) or collaborative exchanges (long term and strategic)
- purchasing policies: leasing, contracting etc.

v) **Personal variables:** The various bases include

- buyer-seller similarity in terms of vision, objectives, strategies, values, attitudes etc.
- loyalty

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**REFERENCES FOR FURTHER READING:**


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**FAQS (FREQUENTLY ASKED QUESTIONS):**

**Ques 1** Define Market Segmentation

**Ans 1**  
*Market segmentation* is the process of identifying distinct groups and or subgroups of customers in the market, who have distinct needs, characteristics, preferences and/or behaviors, and require separate product and service offerings and corresponding marketing mixes. “Market segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix”.

- Schiffman and Kanuk
Ques 2    Differentiate between the following:

a) Mass marketing and Segmentation

b) Concentrated Marketing (Niche) and Individual marketing

Ans 2    a) Mass marketing and Market Segmentation

**Mass Marketing**

Assumption: - Customers have similar needs and wants and can be satisfied with a standardized product/service offering.

Standardized product is produced and distributed with a single marketing program or the same marketing mix.

- Mass production and distribution: Lower costs; Results in lower prices and higher margins.

- Also called mass marketing, aggregate marketing and undifferentiated marketing.

**Market Segmentation**

- There exist diverse customer groups homogenous on certain bases within, but heterogenous among each other.
- Customers are unique; They have different needs, wants and preferences.

So, instead of a single standardized product offering, the product and service offerings are designed according to the needs and wants of the segment so as to satisfy them better.

- Leads to higher customer satisfaction

- It has various forms: Single Segment, Differentiated segment, Concentrated segment or Niche, Micro-marketing: local, individual.
b) Concentrated Marketing (Niche) and Individual marketing

**Concentrated Marketing (Niche)**
- The marketer caters to just one segment although the product could appeal to others.
- The process includes targeting a small segment with a specialized mix meant only for that segment.
- Also called focused or niche marketing.
- Example: Sports channels on TV; Religious channels on TV.

**Individual marketing**
- The marketers cater to the customer individual and personalize the marketing mix.
- The segment comprises one individual; So it is individual to individual marketing.
- Also called customization.
- Example: Holiday packages

**Ques 3**  What are the various levels at which segmentation can take place.

**Ans 3**  It take place at the following levels:

**a) Single Segmentation:**
- One segment only.
- The marketer caters to the entire market with a single offering and the same marketing mix.
- Similar to mass marketing
- Example: for products like salt, sugar and staples.

**b) Differentiated segment marketing:**
- Selection of two or more segments
- Approach these segments with differentiated offerings and corresponding marketing mixes and programs.
- Example: Shampoos and toiletries.
c) Concentrated marketing:
- The marketer caters to just one segment although the product could appeal to others.
- This is generally a sub-group within the whole segment.
- The process includes targeting a small segment with a specialized mix meant only for that segment.
- Also called focused or niche marketing
- Example: Sports channels on TV; Religious channels on TV.

d) Micro-marketing:
 i) Local marketing:
- The marketer caters to local customer groups
- Example: movies dubbed in vernaculars.

ii) Individual marketing
- The marketers cater to the customer individual and personalize the marketing mix.
- The segment comprises one individual; So it is individual to individual marketing.
- Also called customization.
- Example: Holiday packages

Ques 4 What are the bases of Segmenting Consumer Markets?
Ans 4: The bases for segmentation of consumer markets may be divided into two broad categories of variables:

i) Demographic variables: these comprise:
- demographics: age, gender, income, education, occupation, family size, family life cycle, generation, social class, religion, nationality, culture, sub-culture
- geography: Location / country, region, state, city/metro density of population, climate, terrain.
- psychographics needs and motivation, perception, personality, attitude, involvement, lifestyle( Activities, Interests, Opinions).

ii) Behavioral variables: these comprise:
consumer awareness, benefits sought/uses/ needs/ motivation, buying occasions/
purchase situations, buying/usage frequency, buying readiness stage, loyalty status, usage rate,
shopping orientation
SELF EVALUATION TESTS/QUIZZES:

Section A  True/false:
1. Segments are created by marketers.
2. Concentrated marketing is also called Niche marketing.

Section B  Multiple choice questions:
1. Which of the following is not a true statement?
   a) Market aggregation gives way to Target marketing, finally giving way to Customization.
   b) Segments pre-exist a marketer; they already exist
   c) Niches are narrow in scope
   d) All are true.

2. Which of the following is not a behavioral variable?
   a) consumer awareness  
   b) benefits sought
   c) buying occasions/purchase situations  
   d) AIO

Section C  Fill up the blanks:
1. Target marketing comprises three constituents: Segmenting, ___________ and Positioning.
2. When the marketer caters to the entire market with a single offering and the same marketing mix, it is known as ___________ segmentation.
3. The bases for segmentation of consumer markets may be divided into two broad categories of variables. These are ___________ and ___________

Section D  Short answers:
1. Mention the levels/types at which segmentation can take place.
2. Mention any five demographic bases on which segmentation can take place.
3. Mention any five behavioral bases on which segmentation can take place.
4. Name any two kinds of hybrid segmentation.
**Section A**  True/false:
1. False
2. True

**Section B**  Multiple choice questions:
1. d
2. d

**Section C**  Fill up the blanks:
1. Targeting
2. Single
3. Demographic and behavioral

**Section D**  Short Answers:
1. Single segmentation; Differentiated segmentation, Concentrated marketing (niche), Micro marketing (local, individual)

2. Demographic bases: age, gender, income, education, occupation, family size, family life cycle, generation, social class, religion, nationality, culture, sub-culture.

3. Behavioral bases: consumer awareness, benefits sought/uses/ needs/ motivation, buying occasions/purchase situations, buying/usage frequency, buying readiness stage, loyalty status, usage rate, shopping orientation

4. Psychographic/demographic; geodemographics; VALS: Values and Lifestyles