IS MARKET SEGMENTATION DEAD? A CONCEPTUAL MODEL OF THE EFFECT OF SEGMENTATION CHOICES ON MARKETING PERFORMANCE

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ABSTRACT

Market segmentation is generally accepted as a fundamental concept in marketing (Wind, 1978), "one of the most widely held theories in strategic marketing" (Piercy and Morgan 1993). It involves activities designed to group customers with relatively homogenous buying requirements into segments (Frank, Massy and Wind, 1972). More recently, several authors have challenged the usefulness of the market segmentation concept and contrasted it with newer approaches, e.g. one to one marketing, mass customisation, database marketing and interactive marketing (Dibb, 2001; Sheth *et al*, 2000; Wedel, 2001; Kara and Kaynak, 1997). Early conceptual evidence is divided between arguments for the co-existence of the segment of one and traditional segmentation approaches (Dibb, 2001; Storbacka, 1997; Weinstein, 2004; Wedel, 2001; Steenkamp and Hofstede, 2002) and arguments for segments of one as the final advancement in market segmentation (Kara and Kaynak, 1997; Geib *et al*, 2005). Furthermore, postmodernist marketing scholars argue that the increased market fragmentation "render segmentation strategies and techniques founded on the traditional bases of segmentation less and less useful…For postmodern consumer markets, using segmentation strategies that try to constrain or anchor consumers to a single, consistent, stable way of behaving is likely to lead to marketing failure" (p. 197). As a result, the question of whether market segmentation becomes obsolete has been raised, also led by changes in market behavior and increasing evidence of the complementary use of several types of marketing practices (Brodie et al, 2008). Therefore this paper aims at identifying the choices and outcomes of market segmentation and developing hypotheses of their effect on marketing performance. The market segmentation choices fall in three different paradigms of segmentation. The first one is the research technique, whereby market segmentation is seen as the process of separating a market into groups of consumers such as that the members of each resulting group are more like the other members of that group than like members of other segments (Bonoma & Shapiro, 1983). As such, it can be associated with the activity of marketing research, involving collection of market data and consumer preferences and behaviour that are analysed with various statistical techniques. These require decisions on the bases, methods and scope of segmentation. The second paradigm views market segmentation as a decision making tool for the marketing manager in the crucial tasks of selecting a target market for a given product and designing an appropriate marketing mix (Tynan and Draighton, 1987). Within this view, there are two choices to be made, regarding the purpose for and evaluation of segmentation activities. The third paradigm views market segmentation as a competitive strategy, involving the selection of a narrow competitive market which is compatible with the core competencies of the firm (Porter, 1980). The two essential factors that lead to a segmentation strategy are heterogeneity of needs and wants and competition (Winter and Thomas, 1985). Therefore, a strategic view on market segmentation involves the following aspects: the decision to segment, the degree of segmentation and alternative strategies. The outcomes of a market segmentation strategy, in particular competitive advantage, have been referred to only in fragmented and cursory arguments, rather than explanatory models or strong empirical evidence. There is little empirical evidence on the success of certain segmentation strategies under specific market conditions, particularly the kind of evidence that would be useful to managers who want to obtain more than purely theoretical guidance with regard to optimal segmentation strategies in given market conditions (Dolnicar, Freitag & Randle, 2005). Based on the three paradigms of market segmentation highlighted before, I develop a conceptual model that explains the mechanism by which segmentation choices lead to segmentation outcomes which then lead to marketing performance indicators. A comprehensive analysis of extant literature highlights six main outcomes of segmentation: tailored product/service, tailored marketing offer, increased targeting capability, efficient resource allocation, identification of market opportunities and a competitive market positioning. These six outcomes are hypothesized to lead to three types of marketing performance indicators put forward by Walker and Ruekert (1987) and tested by Clark (2000), who found that marketing performance is perceived in practice to have a multi-dimensional nature, consisting of three elements: effectiveness - the success of a business' products and programs in relation to those of its competitors in the market, efficiency - 'the outcome of a business' programmes in relation to the resources employed' and adaptability - the business' success in responding over time to changing conditions and opportunities in the environment (Walker and Ruekert, 1987). The paper develops several hypotheses, integrated in a conceptual model, of how the three segmentation paradigms, and the choices that need to be made within each of them, leads to a combination of segmentation outcomes and how the segmentation outcomes lead to three types of marketing performance. However, it is important to acknowledge that the quality of implementation of segmentation choices will have an indirect impact on the quality of outcomes obtained and therefore on the level of marketing performance that can be expected.

References Available on Request