MEDDELANDEN FRÅN
SVENSKA HANDELSHÖGSKOLAN

SWEDISH SCHOOL OF ECONOMICS
AND BUSINESS ADMINISTRATION
WORKING PAPERS

416

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FROM ONE SEGMENT TO A SEGMENT OF ONE -
THE EVOLUTION OF MARKET SEGMENTATION THEORY

FEBRUARI 2000

Key words: Market segmentation, evolution, marketing theory

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SHS intressebyrå IB (Oy Casa Security Ab), Helsingfors 2000

ISBN 951-555-629-5
ISSN 0357-4598

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From One Segment to a Segment of One

The Evolution of Market Segmentation Theory

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Abstract

The purpose of this study was to deepen the understanding of market segmentation theory by studying the evolution of the concept and by identifying the antecedents and consequences of the theory. The research method was influenced by content analysis and meta-analysis. The evolution of market segmentation theory was studied as a reflection of evolution of marketing theory. According to this study, the theory of market segmentation has its roots in microeconomics and it has been influenced by different disciplines, such as motivation research and buyer behaviour theory. Furthermore, this study suggests that the evolution of market segmentation theory can be divided into four major eras: the era of foundations, development and blossoming, stillness and stagnation, and the era of re-emergence. Market segmentation theory emerged in the mid-1950's and flourished during the period between mid-1950's and the late 1970's. During the 1980's the theory lost its interest in the scientific community and no significant contributions were made. Now, towards the dawn of the new millennium, new approaches have emerged and market segmentation has gained new attention.

1 Introduction

Market segmentation is one of the central concepts in contemporary marketing taught to all marketing students and it can be found in most basic marketing textbooks. Different textbooks present the theory in a very similar manner (e.g. Kotler 1997, Lamb et al. 1992). First, the process of segmenting, targeting and positioning is discussed. Then, a break down of different segmentation criteria follows. Finally, consumer and business markets are compared. In this study, the way market segmentation is presented in the majority of basic marketing textbooks is referred to as the *core theory*.

Most studies around market segmentation have focused on the applications of the theory; i.e. finding new criteria or methods of segmenting the market. This paper, however, has an evolutionary perspective. This paper discusses how the core theory of market segmentation as it is presented in contemporary marketing textbooks has developed, what the most relevant contributions to the theory have been and what the reasons behind these contributions are. In order to develop further understanding of

market segmentation it is reflected to the evolution of general marketing theory. The research approach is qualitative. The focus of this study is on the reasons when and why the theory of market segmentation has evolved rather than in finding out the frequency of contributions. The paper begins by a review of the history of market segmentation. Different approaches and important contributors are presented chronologically. The breakdown follows the one found in most marketing textbooks: geographic, demographic, behavioural and psychographic segmentation. The following section presents later approaches to the theory. Finally, the antecedents and consequences of the theory are discussed.

2 Tracing the roots

The following section discusses important contributions and contributors to the theory of market segmentation. We start the discussion from the foundations laid in microeconomic theory and proceed to the dawn of market segmentation. Thereafter different contributions are discussed chronologically. Firstly, geographic segmentation is presented. Then, demographic, product-oriented, behavioural and psychographic segmentation, respectively, are discussed. The section ends with a presentation of the object of market segmentation and viewing market segmentation as a strategy.

When tracing the roots of a theory, one can continue to go back in time almost endlessly. According to Claycamp and Massy (1968:388) the concept of market segmentation was developed in economic theory to show how a firm selling a homogenous product in a market characterised by heterogeneous demand could maximise profits. The father of the theory of market segmentation is said to be Wendell Smith (1956) who introduced the concept in 1956. This was the first time market segmentation was discussed in academic literature by the name “market segmentation” (Reynolds 1965:107, Barnett 1969:152, Elliot & Glynn 1998:38).

But the roots of market segmentation go further back in time to the 1930’s when the theories of perfect competition and pure monopoly did not correspond to the market situation any longer (Smith 1956:3). The theory of perfect competition assumed that both sides of the market, supply and demand, are homogenous. However, in the 1930’s Chamberlin argued in his monopolistic theory that, in fact, the market of every company is to some degree unique. This resulted in dramatic changes within competitive theory

(Alderson 1957:104). Chamberlin called the phenomenon behind this uniqueness *product differentiation*. The idea being that a producer was actually creating a monopoly position for himself by offering a product different from others.

Chamberlin defined product differentiation as distinguishing the goods or services of a particular seller from those of other sellers on any basis that is important to the buyer and effects the preference. Chamberlin suggested that differences in buyer preferences resulted in a set of different demand curves. He noticed that the basis of differentiation could be either real or imagined, a result of differences in product characteristics, packaging, distribution or in the value of a trademark. He claimed that the differences in the market were a result of the manufacturers' efforts to adapt their offerings to the needs of different buyers rather than a result of market imperfections, such as insufficient knowledge of the customers.

In his classic article in 1956, Wendell Smith defined product differentiation as an attempt to bend the demand to the will of supply by using advertising and promotion. He claimed that product differentiation resulted from the desire to establish an equilibrium in the market by adjusting demand to supply conditions favourable to the producer. This definition differs from the one of Chamberlin.

2.1 The dawn of market segmentation

Wendell Smith (1956:6) defined market segmentation as “viewing a heterogeneous market as a number of smaller homogenous markets in response to differing product preferences among important market segments”. He suggested that the variation in the demands of individual consumers may be based on different customs, desire for variety or exclusiveness or may arise from “basic differences in user needs”. Some variety can, according to him, be classified as “shopping errors” in the market. Not all consumers have the ability to shop in a rational manner.

Although Smith viewed market segmentation from the economist’s point of view and discussed it very theoretically, many researchers got interested in more practical implications soon after. According to Smith (1956) there were many reasons why the concept of market segmentation resulted in so much interest in the 1950’s. One of the most important reasons for its emergence was that the minimum size of manufacturing units that was economically reasonable decreased in many product areas. He claimed also that the advancements in technology made it possible to produce goods with variety.

Also the changes in the retail structure towards more self-service required better adjustments to consumer demand. With no sales people "selling" the goods, the goods had to sell themselves.

2.2 Geographic segmentation

Geographic segmentation was natural for merchants in the pre-industrial era as geographical distances set boundaries for practising business. The merchant could sell only to people living within a reachable distance. Advancements in transport and distribution systems helped to break down many boundaries. Geographic segmentation was discussed in literature in the early days of market segmentation. Jean Namias (1959) studied how intentions to purchase household durables correlated with actual purchases and found out that people living in towns or small cities were more likely to carry out their intentions to buy durable household goods than consumers in large cities.

2.3 Demographic segmentation

Geographic segmentation was soon forgotten by the marketing scholars as demographic segmentation was brought into the literature. Only a year after Smith's trail-blazing article, Irwin Friend and Irving B. Kravis (1957) announced that they had found some interesting patterns of consumption among people representing different demographic characteristics. Friend and Kravis had conducted a study of consumer expenditures, incomes and savings. Their hypothesis was that families could be segmented according to occupation, race, income class and other socio-economic characteristics. Jean Namias (1959) found correlation between family life cycle, intention to buy household durables and actual purchases. Henry L. Munn (1960) investigated the relationship between age, income, education and the purchasing of automobiles, television sets, coffee and cigarettes. According to him, brand perception appeared to be largely independent of consumer socio-economic classification.

Soon after basic demographic factors were first mentioned in the literature, the effects of social class and group membership on purchase behaviour started to interest researchers. According to Barnett (1969), interest in the use of social class as a segmentation criterion emerged when income per se became less effective as a differentiating variable. Previously there had been significant differences in income levels between the different social classes and thus it was assumed that income correlated with the style of living as

shown by Friend and Kravis (1957). However, towards the end of the 1950's the median income of American blue-collar workers and white-collar workers had started to converge. Thus, income became less useful as a segmentation criterion. It was soon assumed that it was in fact the norms of a social class that determined life style, taste and consequently purchase behaviour.

Martineau (1958) conducted a study involving 3880 households in the Chicago area and found a connection between social class and purchasing behaviour. He also argued that the social class of an individual affected his communication ability, spending and saving habits and life style. He found that lower and middle classes preferred totally different types of retail stores.

However, many researchers soon started to criticise demographic segmentation (Levitt 1960, Sissors 1966, Barnett 1969). Sissors (1966:19) argued that geographical and demographic characteristics are too general to be meaningful in identifying markets. However, he suggested that they could be used when planning a media strategy. Barnett (1969: 153) pointed out that Friend and Kravis had used general and independent purchase categories such as food and housing, and that data based on them are far too general in order to show any real consumption patterns. According to Barnett, goods such as food and housing are fundamental and that the consumers do not really have alternatives. Demographic segmentation became the most popular approach in the 1960's, mainly because of its simplicity. In 1969, John Bieda and Harold Kassarjian (reprint 1973:211) wrote that "that demographic variables are a useful method has become almost axiomatic in marketing, and yet the research evidence is not at all clear." Although many researchers during the history of market segmentation have opposed to the findings of Friend and Kravis and the usefulness of demographics, demographics is still mentioned as a segmentation variable in contemporary marketing textbooks.

2.4 Product segmentation

Theodore Levitt (1960) suggested already in the beginning of the decade that producers would start to look at their companies as "customer-satisfying processes" rather than as "goods-processing processes". He argued that a market was in fact composed of persons who have various needs and wants and that markets should be identified by *consumer needs* rather than *product classes.* Despite Levitt's arguments, segmentation by product characteristics started to bloom in the 1960's.

According to Barnett (1969), Kuehn and Day (1962) were the first to write about segmentation by product characteristics. They suggested that different customers prefer different dimensions of a product and that marketers should focus on the product characteristics. For example, a chocolate cake manufacturer could find out that some customers preferred darker chocolate and some lighter and that the consumers base their buying decision according to the degree of chocolate in the cake-mix. Therefore, the dimension in this case would be the "chocolatyness" of the product. Kuehn and Day suggested also that the preferences on the market are normally distributed. The marketers should carefully measure the preferences and differentiate their product accordingly to match the needs of one or several segments. Kuehn and Day stressed the importance of relating the various levels of the product feature directly to the preferences of consumers and of determining the proportions of all consumers who prefer each level. However, they did not explain how to choose the key feature.

Barnett (1969) argued that a market should be segmented by perceived product or brand characteristics. He called his approach "product segmentation" to distinguish it from market segmentation. Barnett explained that product segmentation concentrated on the differences between competing products, rather than on the characteristics of a "hypothetical consumer population".

2.4.1 Segmentation by use

Also Yankelovich (1964:107) discarded the use of demographic factors when segmenting the market and presented his own method that he referred to as the segmentation analysis. The Yankelovich method of segmentation was based on patterns of product usage. He claimed that many products could be used to fill different functions. A bathing soap, for example, can be bought by some consumers who emphasise the cleaning-effect and by some for whom bathing is a way of relaxing. Some people use air fresheners to remove unwanted odours and some to add an odour. Yankelovich named several criteria for segmentation: patterns of usage, values derived from the usage, aesthetic preferences and buying attitudes and motivations. Yankelovich assumed that the differences in buying behaviour depended on differences in the characteristics of the people involved as well as on the planned use of the product. Therefore, according to him both product and people characteristics determine the choice of a product.

2.4.2 Market segmentation as a process

Also Sissors (1966:17) found product characteristics or product subclasses a more precise way of defining a market. According to him a market could be identified for example as a "softdrink market"; hence a narrower definition could be "cola drinks". Subsequently, a subclass could be identified further by brand name. The group of people referred to could be "Coca Cola-drinkers". Once a market was defined, the people could be described by a number of means that Sissors (1966:21) divided into two categories: physical attributes and behavioural characteristics of the customers. Sissors listed a number of characteristics that can be used to describe a market: size of the market, geographic location, demographic factors, socio-psychological characteristics; reasons why products are purchased and by whom, when and how the purchase is made. Besides introducing a number of new characteristics, Sissors took the first step towards looking at market segmentation as a *process,* consisting of more than one step.

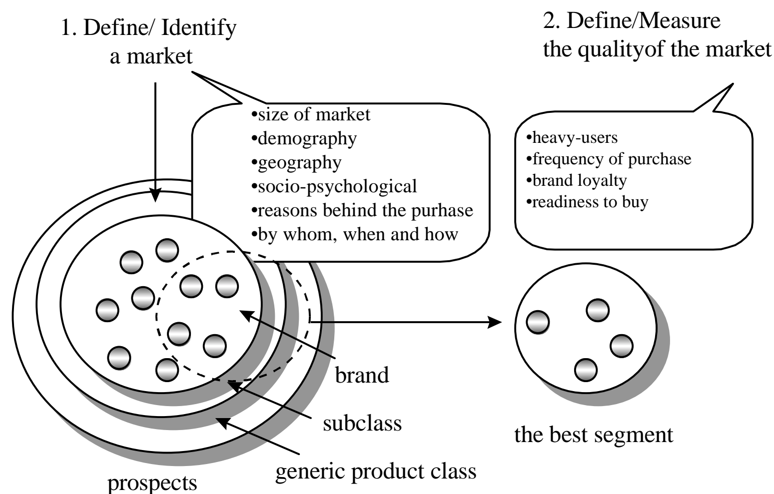

Figure 1: Market segmentation seen as a process

In order to understand a market it is necessary to differentiate prospects from non-prospects. According to Sissors, the first task for a marketer was to define a market by the generic product class, subclass or brand and describe them by the factors he recommended (Figure 1). Secondly, a marketer should determine the quality of that specific market. By quality Sissors (1966:19) meant "a measure of good sales potential". Sissors argued that the traditional methods of describing the market tended to be crude when it came to identifying the *best* prospects from the total market. He suggested that this crudeness might be due to the techniques of grouping prospective customers. Grouping individuals tends to neglect the fact that each individual cannot be considered

as good a prospect as any other individual. Sissors suggests that for every descriptive classification it might be possible to divide the market on a continuum from poor to good prospects.

Sissors named a number of qualitative dimensions that can be used to identify the best prospects. One such dimension could be the reason for buying the product. Another method is to consider the differences between heavy and light users. It might also be valuable to study the frequency of purchase. Nevertheless, brand-switching or brand loyalty should also be studied as well as the prospect's readiness to buy the product. The customer's readiness to buy may differ from now to never and those nearer the "now"-end of the continuum are obviously better prospects. Sissors called the second step in his segmentation technique "identifying qualitative dimensions of the market". Interestingly, this step resembles the familiar "targeting" phase of target marketing.

2.4.3 Benefit segmentation

Russell Haley (1968) criticised geographic, demographic and volume-based segmentation as relying more on descriptive factors than causal factors. He suggested a new approach to market segmentation and argued that it could be possible to identify market segments by causal factors. The basic assumption Haley had was that the benefits that the consumers are seeking from the product are the basic reasons for the existence of market segments. Therefore, Haley named his approach *benefit segmentation*. Benefit segmentation is based on measuring consumer value systems in detail i.e. what the consumer values in different brands in the same category. Each segment is identified by the benefits it is seeking.

Haley's example of segmenting the toothpaste market is legendary and found in many contemporary marketing textbooks. He found out four benefit segments: economy, medicinal, cosmetic and taste. Each segment had particular demographic, behavioural and psychographic characteristics and favoured a certain brand. Haley pointed out that it is the total configuration of the benefits sought that distinguish one segment from another. Most people would prefer as many benefits as possible, but it is the relative importance of the benefits that differ. Haley did not discuss in detail how the segments should be determined in practise. He gave two alternatives: intuition and computers.

Table 1: Haley's benefit typology (Haley 1968:35)

The Status Seeker	very much concerned with the prestige of the brand	**The Rational Man**	looks for benefits such as economy, value, durability
The Conservative	prefers to stick with large successful companies and popular brands	**The Innerdirected Man**	especially concerned with self-concept. Considers himself to have a sense of humour, to be independent and honest
The Swinger	tries to be modern and up to date	**The Hedonist**	concerned primarily with sensory benefits

2.5 Behavioural segmentation

Behavioural segmentation was first demonstrated by Dick Warren Twedt (1964), who suggested that the users of a product could be divided into heavy-users and light-users. He analysed the degrees of purchase concentration of 700 households in 18 product categories and arranged the purchasing households in order of their purchase volume and separated the households at the median into two halves. He found out that one household from the heavy half purchases as much as nine households in the light half, and that the heavy- and light-users could be distinguished on the basis of their demographic characteristics. Although the correlation between demographic variables and the purchasing volume was not strong Twedt forecast optimistically that volume of product purchase will replace demographic measures in marketing surveys.

2.5.1 Readiness to buy and brand loyalty

William D. Wells (1961) argued that consumers are not equally ready to buy a given product. He suggested that the predisposition ranges from an intention to buy the product in the immediate future to an intention never to buy the product. He also suggested that companies should measure consumers' readiness to buy their product and use the results in defining attractive market segments. Wells reasoned that the consumer who is nearly ready to buy is easier to sell to and thus worth trying to reach.

The relevance of brand loyalty for marketers and it's usefulness in segmenting the market interested marketers as early as the 1950's (Cunningham 1956, Kuehn 1958 in Frank 1967). Massy and Frank (1965) focused on the effect of loyalty to a brand on customer response to the pricing, dealing and retail advertising of a brand and its competitors. They found no significant differences in the price, dealing and advertising elasticities between the loyal customers and the non-loyal customers. A number of other studies

also failed to show any interesting results. Discouraged from the results with brand loyalty studies, Frank (1967) argued that brand loyalty is not a useful basis for market segmentation. According to him, brand loyal customers are unidentifiable by socio-economic or personality characteristics, and do not differ in demand volume or in sensitivity to promotion from other customers.

2.5.2 Segmentation by motivation and attitude

Until the beginning of the 1970's, segmentation studies had mostly dealt with demographic and socio-economic measures. Cunningham and Crissy (1972:100) conducted a study to find out if the US car market could be segmented by socio-economic and demographic variables as well as by attitudinal measures. They wanted to determine if the origin of a car effected buying behaviour and found out that foreign compact car owners were of higher social class and were in the earlier stages of the family life cycle. The car owners differed on 4 out of 5 motivational and attitudinal variables. Therefore, Cunningham and Crissy argued that at least small car markets could be segmented on the basis of socio-economic and demographic characteristics as well as motivational and attitudinal variables.

2.6 Psychographics

The roots of psychographic segmentation come from a concept called motivation research (MR). In the early 1950's the concept of motivation research was discussed among many marketers and advertisers. Motivation researchers were interested in the psyche of the consumers, and the methods used were derived from clinical psychology. The approach differed from the traditional ones and aroused a lot of controversy among marketers. As Wells and Tigert (1971:27) put it "before MR advertising and marketing research had in fact been a vast wasteland of percentages." Motivation research focused on the attitudes and opinions of people and saw consumers as different personalities rather than numbers in the statistics.

2.6.1 Personality

A number of different studies from the late 1950's onwards tried with little success to show that the consumer's personality characteristics and his buying behaviour correlated (Evans 1959, Koponen 1960, Westfall 1962). Franklin Evans (1959) was one of the firsts

to try to link personality with buying behaviour. The aim of his legendary study was to identify differences in personality between owners of Fords or Chevrolets, two cars that the motivation researchers had shown to have quite different personalities. However, Evans could not show any significant results. Westfall (1962) was able to find slight differences between convertible owners and sedan owners but the relationships were weak.

It did not look bright for the personality segmentation approach. Brody and Cunningham (1968:50) wrote in 1968 that "there is a growing feeling that the study of personality is likely to provide little insight beyond that provided by standard demographic data". Brody and Cunningham (1968) investigated the relationship between personality and purchase of coffee and found no significant differences between brand loyalty and personality. However, they argued that personality variables should differ for brand choice when there is a *high risk* involved in the purchase. Therefore, personality should have no affect on purchase decisions in product classes like coffee and toilet paper.

It was not until Jerome Kernan (1968) investigated the correlation between personality and decision behaviour that someone managed to show a link between the two concepts. Lessig and Tollefson (1971: 480) speculated that the previous studies might have failed since they tried to find a linear relationship between buying behaviour and personality. Additionally, they reminded us that the previous studies had involved a search for relationships between a number of personality characteristics and a single buying behaviour variable. The decision process theories, on the other hand, suggest that buying behaviour is a process and thus one should focus on a type of buying behaviour instead of single aspects of the process.

In his study, Kernan attempted to determine whether people would use formally constituted choice criteria if they were given the opportunity or whether they rely on intuition. He found no relationships between personality variables and univariate variable measures of the usage of choice criteria. However, there were significant relationships between a multivariate measure of the usage of choice criteria and personality variables.

Lessig and Tollefson (1971: 481) attempted to introduce a procedure for segmenting the market according to personality. They argued that although Kernan had found out that the similarity of purchase decision processes might imply similarity in buying behaviour, similarity of decision processes could not be inferred from observed similarity in behaviour. Nevertheless, Lessig and Tollefson argued further that consumers who have

similar buying behaviour *and* have similar personal characteristics are likely to have similar purchase decision processes. The result of their study supported the existence of a relationship between personal characteristics and buying behaviour, although they admitted that it was not evident that all of the households they placed in the same behavioural cluster actually belonged to the same market segment.

Personality is one of the most mentioned variables in textbooks. Paradoxically, many of the marketing books use Evans' study of Fords and Chevrolets as an example of successful personality segmentation (e.g. Kotler 1995, Kotler 1997) although Evans was unsuccessful in finding any significant differences in the personalities of owners of these two cars. Evans (1959) himself concluded "that personality needs, as measured in this study, are of little value in predicting whether an individual owns a Ford or a Chevrolet automobile."

2.6.2 Life style segmentation

Life style segmentation was introduced in the 1970's, inspired by research done in the area of life style patterns. The concept of lifestyle patterns and its influence on consumer buying behaviour were first introduced in 1963 by William Lazer (Plummer 1974: 33). He defined life style patterns as "a systems concept referring to a distinctive mode of living". According to Wells and Tigert (1971) and Plummer (1971) the most widely used approach to life style segmentation in the 1970's were the AIO rating statements. AIO statements are based on determining people's activities, interests and opinions. Life style is measured according to consumers' interests and opinions and how they spend their time as well as some demographic factors such as life cycle, income, education and place of residence. Plummer (1974: 34) listed a number of factors included in each of the four dimensions of life style, as presented in Table 2.

Table 2 Life style dimension (Plummer 1974: 34)

ACTIVITIES	INTERESTS	OPINIONS	DEMOGRAPHICS
Work	Family	Themselves	Age
Hobbies	Home	Social issues	Education
Social events	Job	Politics	Income
Vacation	Community	Business	Occupation
Entertainment	Recreation	Economics	Family size
Club membership	Fashion	Education	Dwelling
Community	Food	Products	Geography
Shopping	Media	Future	City size
Sports	Achievements	Culture	Stage in life cycle

Plummer (1974) argued that life style segmentation combines the simplicity of demographic segmentation and the depth of using psychographic factors. Plummer claimed that there are several benefits from using life style segmentation, such as richer definition of the key target. He also argued that life style segmentation could be used to compliment other pieces of information when positioning a product. Life style data can also be applied when designing advertising, in order to create the appropriate "tone of voice" for different target groups.

In 1978, SRI International introduced Mitchell's VALS (the Values and Lifestyles market segmentation system). According to Fransworth Riche (1989:26) it was the first psychographic segmentation system to gain worldwide acceptance. VALS divided the consumers into nine segments according to their needs. The needs driven consumers were called Survivors and Sustainers. Then, the model divided people into two streams: the outer directed and the inner directed. The outer-directed people - Belongers, Emulators and Achievers - were conscious about their external environment. The inner-directed people, on the other hand, made their own rules. I Am Me's, Experentials and Societally Conscious did not need external advisors. Finally, there also were Integrateds.

VALS was designed to reflect the American population in the 1970's. The population in the 1970's, however, was dominated by people between the age of 20 and 30. As the age structure of the American population changed VALS was seen to be out of date. SRI developed a new segmentation system, VALS2. The new system differed from the original system in that it did not use values and lifestyles as the basis for the segmentation scheme. According to Gates (1989:29) and Fransworth Riche (1989:26) SRI explained that the reason behind this change was the fact that the link between values and lifestyles and consumer buying behaviour was not as strong as it had been previously. This was due to changes in demographic and economic structure in the US. The baby boomers

had aged, the diversity of population had increased and the economy had become more global.

VALS2 segmented consumers into eight groups: Actualizers, Fulfillers, Achievers, Experiencers, Believers, Strivers, Makers and Strugglers. The neighbouring types had similar characteristics and could be combined for analysis as primary and secondary types. The groups were arranged in a rectangle along two dimensions: self-orientation and resources. Self-orientation refers to the patterns of attitudes and activities that help people reinforce, sustain and modify their social self-image (Gates 1989:27). Self-orientation represents three different ways of buying. Principle-oriented consumers are guided in their choices by their own views of how the world should be rather than by feelings, events or opinions of others. Status-oriented consumers are guided by their actions and opinions of other people and they look for products that demonstrate their success to other people. Action-oriented people have a desire for social or physical activity, variety and risk-taking (Fransworth Riche 1989:30). Resources include income, education, self-confidence, health, intelligence and energy level. According to SRI they refer to the "full range of psychological, physical, demographic, and material means and capacities people have to draw upon". Resources are measured from minimal to abundant.

Many researchers have been sceptical about the validity of lifestyle segmentation schemes (Wells 1975; Wind 1978; Lastovicka et al. 1990). During the 1970's several mathematical segmentation techniques were presented in marketing journals, e.g. cluster analysis and Q factors analysis. The popularity of statistical methods worried some marketers. Wells (1975:207) reminded us that marketers need ways to determine whether the results of cluster analysis or factor analysis represent real groups of real customers or are they results of the computer's imagination. Kinnear and Taylor (1976) warned of relying on catchy descriptions and pinpointed the importance of measuring the validity of used typologies. Lastovicka et al. (1990:11) found it concerning that lifestyle is used as a basis when creating cluster-based typologies although researchers do not always know the number and type of the resulting lifestyle segments.

2.7 Object of market segmentation

The objects of market segmentation have varied throughout the history of the concept. The first articles published were theoretical in nature. Smith (1956) talked about demand

and supply rather than about specific companies and customers. He mentioned cigarette and automobile industries as “well known examples of market segmentation”, but his article focused more on the microeconomic aspects of market segmentation. Thereafter, the objects in market segmentation theory can be roughly categorised into two groups: the segmentation strategies focusing on *consumer characteristics;* and the strategies focusing on *product characteristics*. The latter was promoted by a few researchers mainly in the early days of market segmentation (e.g. Yankelovich 1964:107, Reynolds 1965 and Barnett 1969). Product segmentation can also be found in the modern marketing literature, but with a different name. Philip Kotler (1995: 270) divides segmentation variables into two groups; consumer characteristics and consumer responses. Consumer responses include benefits sought, use occasions or brands i.e. variables that were used in product segmentation in the 1960's. In other words, product segmentation has not been abandoned in the literature, it just has a new name.

The first studies on market segmentation focused on consumer markets. The examples of companies used in the articles were often very traditional producers of traditional consumer goods, such as the well known example of toothpaste (Haley 1968), cake mix (Kuehn & Day 1962), cars, soap and shampoo (Yankelovich 1964). Richard Cardozo (1968) was one of the first researchers to focus on segmenting industrial markets. Although market segmentation had interested many researchers by the end of the 1970’s, the research had been limited to the consumer goods markets. Cardozo found in his study only six sources that even mentioned industrial markets and market segmentation. Cardozo (1968: 253) suggested that industrial markets could be segmented on the industrial buyers’ purchasing strategies, buyers’ risk preferences, role types and cognitive styles, the problems and risks perceived by different buyers, differences among purchase requisitions and differences in the environmental forces affecting different buyers.

2.8 Market segmentation as a strategy

In 1968, market segmentation was discussed in nearly every issue of major marketing journals (Claycamp & Massy 1968:388). Most articles, however, were more or less general discussions of the basic concept or studies dealing with consumption patterns between different groups. Claycamp and Massy (1968:388) claimed that the strategy of segmentation was often treated parallel to the act of defining subparts of the market and hence a lot confusion existed about the strategic implications.

Towards the end of the 1960's many researchers started to devote attention to concept testing, a procedure for measuring consumers' reactions to new product concepts (e.g. Twedt 1969, Day 1968, Reitter 1969). Concept testing focused on finding out the size of the potential market and which attributes are most important in accounting for customer reactions to the concepts. It did not however deal with segmentation and positioning issues. In 1973 Yoram Wind (1973) argued that it is essential to evaluate concepts on the basis of acceptance by consumers in general as well as by specific market segments. He suggested that concept testing should also find out the number of market segments, identify their characteristics and reactions to the various concepts, the relevant competitive setting of the concepts and what is the most desirable positioning for the concept.

Wind suggested a four-step procedure for concept evaluation. First, markets were identified. Wind suggested that markets should be determined according to the consumers' reactions to the concepts and consumers' expectations (benefits sought). Although he admitted that management preference would determine the basis for segmentation, he recommended benefit segmentation. Secondly, marketers should determine which concept is the most promising for each segment. Thirdly, the marketer should identify the characteristics of the market segments. This includes demographic and socio-economic characteristics, life style and product usage information. The final step is to assess the concept's market positioning.

In 1971, Richard M. Johnson (1971) argued that the real role of market segmentation research should be more than just dividing the market into little pieces. He suggested that market segmentation should be seen as a strategic management tool, rather than a tactical procedure. Johnson preferred to refer to market segmentation analysis as "the examination of the structure of a market as perceived by consumers, preferably using a geometric spatial model, and to forecast the intensity of demand for a potential product positioned anywhere in the space".

He presented a method called perceptual mapping. The marketer should settle on a number of attributes that account for all the ways the product can be seen to differ from others. Each product in the category is then rated by each attribute by a group of people. A multiple discriminant analysis is then used to construct a spatial model of the product category. Johnson used the Chicago beer market as an example. He found out that two dimensions accounted for 90% of the discrimination among images of the different

beers. Each brand was then located by these two dimensions; quality vs. price and relative lightness of the beer.

3 New approaches

After the contribution boom in the 1960's and 1970's things slowed down on the segmentation frontier. During the 1980's hardly any interesting contributions to the core theory were made; it seems that the researchers were interested only in developing the techniques of segmenting. However, in the 1990's several authors have started to discuss new approaches to market segmentation. New objects and criteria have been discussed, as well as new tools for conducting segmentation. Interestingly, many of the latest contributors do not use the word segmenting, although they are addressing the problem.

3.1 Segmenting the network

In segmentation theory the objects of segmentation have traditionally been divided into consumers, products and industrial buyers. However, recently for example Reichheld (1996b) has suggested that also the internal markets, i.e. the personnel, should be objects of segmentation. According to him the beginning of the recruiting process should include segmenting potential employees, targeting the marketing messages to the best potential candidates, and employing them. Often customers build trust with particular employees and if the employees leave, this bond may be broken. Loyal employees become more familiar with the business over time, they learn more, and consequently they can be more valuable to the company.

Gummesson (1995b) presents 30 different possible relationships that a company can have with customers, employees, investors, suppliers, mass media and government. He argues that a company needs to establish the mix of relationships that are crucial to the success of the company. He stresses that not all relationships are important to all companies all the time. These writings suggest that the object of market segmentation should be broadened to cover all actors in the market.

3.2 Loyalty as segmenting criteria

Also new criteria have been discussed in the latest literature. Reichheld (1996a:61) suggests companies should find the "right" customers from the customer base, i.e. those who are loyal and profitable, choose those customers as target customers and deliver superior value to them. Companies should also have knowledge of which customers are not loyal and direct resources away from customers who are likely to defect and towards those likely to stay. According to Pine, Peppers and Rogers (1995) there are several reasons why it is usually beneficial for firms to have long-term relationships with the customers. Customer's lifetime value should be in focus when segmenting the customers according to their profitability. First of all, the longer a single customer is retained by a company, the more profitable he becomes because of increased purchases. Furthermore, the operating costs caused by the customer diminish when the company can obtain benefits of knowing each customer's preferences. Loyal customers also spread positive word-of-mouth about the company, thus acting as "advertisers for free", and costs for advertising can be decreased. Long-term customers are also less price-sensitive because of the value added to the purchase by the secure relationship. The value of the customer to a company can also be increased because of new insights the customer provides that can be applied to other customers as well.

One way to approach customer loyalty is by studying switching behaviour. Instead of studying whom our customers are the researcher focuses on customers who have left the company. Roos (1998:119) argues that switching customers can be categorised into two groups. Those who have left the company but aim to go back (revocable switching decision) and those who do not (irrevocable switching decision). Switching can be seen as a process and the customers can be studied while they are on the path towards the decision. Roos (1999:29) suggests that managers should investigate their customer base and try to identify customers on their respective paths. This is important since customers in different paths need to be treated differently in order to prevent them from leaving.

Storbacka, Strandvik and Grönroos (1994) also stress the importance of measuring actual acts by customers. Purchase loyalty, purchase volume, word-of-mouth behaviour and long term customer relationship profitability should be in focus when segmenting the relationships. Long-term relationships are, however, not a sufficient prerequisite for customer relationship profitability. Relationship revenue and relationship costs are important dimensions of the relationships that cannot be neglected. For example, when

banks segment their customers they should consider the volume of their customers. Banks are often more dependent on the business of the high-volume customers and less dependent on their small-volume customers.

3.3 Segmentation based on relationship profitability

High sales volume does not necessarily imply high income. Some customers are more costly to serve than others are. Shapiro et al. (1987:102) divide customers into four segments according to the net price realised (relationship revenue) and cost to serve (relationship cost). The vertical axis in Figure 2 represents the net price and the horizontal axis the cost to serve. Customers who cost a lot to serve but who are on the other hand willing to pay for their service are called the *carriage trade* (Shapiro et al.1987:104). Customers who place small orders for customised services and pay a premium price fall into this segment. This group contains both profitable and unprofitable customers (Storbacka 1994:151).

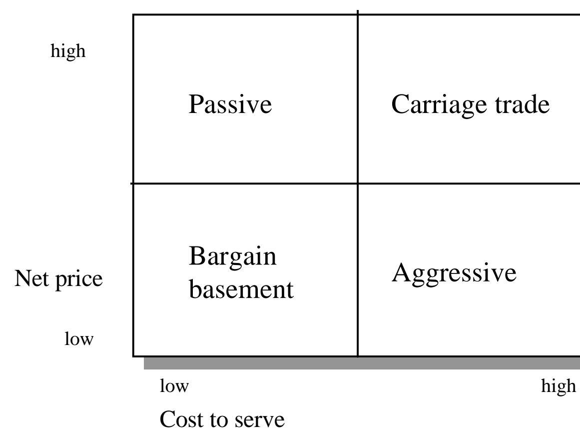

Figure 2: Customer classification matrix (Shapiro et al. 1987:104)

Customers who are, on the other hand, very price-sensitive but accept changes in service and quality are called *bargain basement* customers (Shapiro et al.1987:104). A customer choosing to shop in low-budget shops focuses on the price and forgives fluctuations in service quality. Customers who are less costly to serve but who are willing to pay higher prices are called passive (Shapiro et al.1987:104). This segment is highly profitable. There are a number of reasons to explain this kind of behaviour that might sound surprising at first thought. It may be the case of a product being too insignificant to be negotiated over. On the other hand, the product might be too crucial or the switching costs could be too high. In contrast, aggressive customers demand the highest quality and the best

service although they are not prepared to pay for them. These kinds of customers are powerful and might have a monopoly status.

Storbacka (1994:151) suggests another way to segment the customer base by customer relationship profitability. Customers can be segmented according to their *relative* profitability or their *absolute* profitability. The relative profitability is the customer's profitability relative to the total customer base. Segmenting according to the relative profitability of the customer takes place as follows: the customers are first separated to the most profitable and the most unprofitable, and are then sub-divided into profitable and unprofitable customers.

Berry (1998) recommends banks to create databases with customer information to identify profitable customers. Berry suggests that bankers can then use the characteristics of the profitable customers as segmentation criteria to find new profitable customers. The first step is to screen the total market and define market share and total market potential. Secondly, the banker can model the existing customer base to measure segment profitability and begin to gain knowledge on the segment's purchasing behaviour. The existing customers should be segmented according to e.g. annual revenue, geographic location, industry and credit rating. The third step is to study the total market by using the same criteria applied to existing customers. The information is then compared to the customer base. The segments that seem profitable against the information about the profitable existing customers can then be targeted.

Elliot and Glynn (1998:41) suggest in their study of segmenting the financial markets that customers should be segmented according to the likely value of the relationship, i.e. the net present value of the relationship. Companies should not look at the present value of the relationship but also the future value. They suggest that segmentation should be based on the joint combination of customer needs and profitability. The company should identify the needs of the customers, i.e. what the customer is looking for. The company should also investigate the present and future value of the customer relationship.

In practise, the role of segmenting is therefore, to segment the existing relationships according to their profitability and with the help of this information enhance the best customers and where possible, to transform the less profitable customers into more profitable ones. Grönroos (1997) stresses the point even further and claims that in some cases it can be even better to terminate unprofitable relationships.

4 Antecedents and consequences

The purpose of this paper was to study the evolution of market segmentation theory, to deepen the understanding of the concept, and to identify major contributions to the theory. The aim of this study was to find explanations why the theory has evolved the way it has. Therefore, the following chapter discusses the antecedents and consequences of market segmentation theory, i.e. the background and the results and outcomes of the theory. The core theory and the latest contributions are discussed separately. First, the influence of different schools to the evolution of market segmentation theory is discussed. Secondly, the evolution of different segmentation criteria and objects are discussed, respectively. After that, the different eras of the history of market segmentation are introduced. Finally, the chapter finishes with a discussion of the logic of market segmentation.

4.1 Schools of contribution

The principles of market segmentation go back to economic theory and product differentiation in monopolistic competition. The classical and neo-classical approaches and the theories of perfect competition and pure monopoly were challenged in the 1930's by Chamberlin and his theory of monopolistic competition. Chamberlin explained that the market for every competitor is unique in some degree, and that this was due to the phenomenon referred to as product differentiation. He explained that a product class is differentiated if there is any basis for distinguishing the goods of different sellers. Wroe Alderson (1957) described product differentiation as a control over supply, in the sense that only one seller offers a product of the exact name and identity. The emergence of the concepts of product differentiation and differential advantage was crucial for the development of market segmentation theory. The recognition of different demand sets due to other things as market imperfections was essential. Researchers noticed that differences in demand were caused by differences in tastes, desires and the location of buyers (Alderson 1957:105).

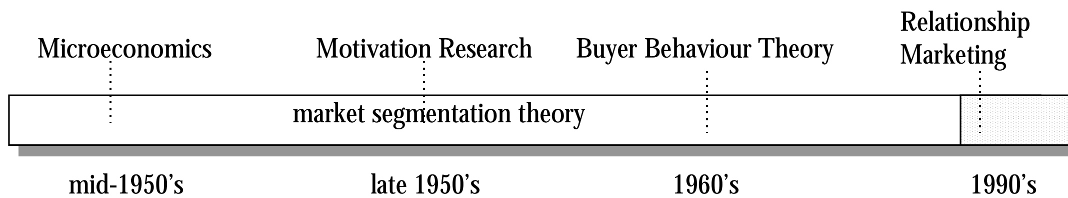

Figure 3 Schools of contributions

Wendell Smith (1956) discussed market segmentation and product differentiation as alternative strategies. Segmentation recognises several demand schedules and represents an adjustment of product to consumer requirements. Smith proposed that marketers find segments that can be exploited with profit. The profit implications of the concept interested many marketers and soon market segmentation became a central issue in marketing. Researchers started to study the reasons behind differences in demand. The studies around market segmentation soon focused on finding the most useful basis for identifying different segments. In the late 1950's, the theory evolved from microeconomics towards applied sociology and psychology under the influence of motivation research.

During the 1960's there was an increase in interest to buyer behaviour theory. This approach made great contributions to market segmentation theory. The concepts of buyer behaviour and market segmentation are very closely related. Some researchers even classified market segmentation as one dimension or category of buyer behaviour research (Sheth 1967). During the 1990's new approaches have emerged. It is suggested here that many of the latest contributions have emerged from the field of relationship marketing.

4.2 Different criteria

The most discussed dimension of market segmentation theory is the criteria used in forming the segments. The evolution of the theory can also be described according to the different criteria suggested. The first criterion was a natural one. The early merchants divided their markets geographically. As companies grew nation-wide and the transport systems and distribution systems developed, geographic segmentation lost its importance. The next criterion suggested was the demographic variable. Although many researchers has already proved in the early days of demographic segmentation that there was no or very little correlation between demographic variables and buying behaviour, the simplicity of the approach guaranteed its popularity.

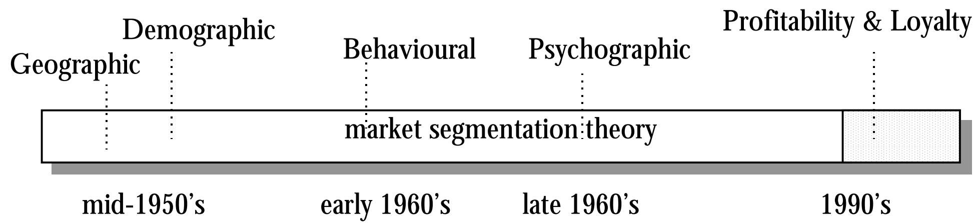

Figure 4: Emergence of different segmentation criteria

The focus shifted then from the external person-oriented characteristics to understanding consumer behaviour. Motivation research encouraged marketers to find reasons for consumer behaviour from personality and lifestyle characteristics and set the foundations for psychographic segmentation. Under the influence of buyer behaviour theory, market segmentation researchers focused on the behavioural characteristics. After the 1970's the development of new criteria stopped with the exception of lifestyle segmentation. The commercially used VALS lifestyle segmentation scheme was developed into VALS 2 in 1987 by SRI; the owner company of VALS. New approaches emerged in the 1990's. The loyalty and profitability of customers were discussed as valid segmentation criteria.

4.3 Different objects

The objects in market segmentation theory fall into two categories: the segmentation strategies focusing on *consumer characteristics,* and the strategies focusing on *product characteristics.* Smith (1956) talked about demand and supply rather than specific companies and customers. Thereafter, two different approaches could be found in the literature: product-oriented and person-oriented segmentation. Yankelovich (1964), Reynolds (1965), Haley (1968) and Barnett (1969) supported product segmentation. One might question the true difference between these two approaches.

One reason why product segmentation is distinguished from consumer-specific segmentation is that the scholars behind product segmentation stressed that their approach was different. Barnett (1969) explained that consumers choose the brands whose characteristics, real or imagined, they prefer. Therefore, a marketer should focus on the characteristics of the product, instead of the characteristics of the consumer. It has also been suggested that the difference between product-related segmentation and consumer-related segmentation is that product-specific criteria, such as attitude towards a product, describe the buying behaviour better than consumer-specific criteria. Consumer-specific criteria, on the other hand, describe the segment better. It can be

summed up that the main difference between these two approaches is that product segmentation uses the characteristics of the product to describe the customers whereas the consumer-related segmentation approach focuses on the consumer-specific characteristics of the buyers to describe the segment.

The first studies on market segmentation focused on consumer markets. The examples of companies used in the articles were often producers of very traditional consumer goods, such as the well-known example of toothpaste (Haley 1968) and shampoo (Yankelovich 1964). Industrial markets were introduced to segmentation theory in the late 1960's (e.g. Cardozo 1968). The approach to product segmentation did not survived into the 1990's as a separate approach to market segmentation, but the criteria used in product segmentation, such as benefits sought or use occasions, can still be found in modern marketing literature.

In the 1990's new objects emerged in the literature. The suggested new criteria, loyalty and profitability, are characteristics of existing customers. Previously, the object to segmentation had also been the customer, but not specifically the existing customer. The object of segmentation had rather been the prospects, i.e. the possible customers. Apart from segmenting the market, i.e. the possible customers, researchers also suggested that a company should also identify right employees. Reichheld argued that loyal employees are required to keep the customers loyal and that a company should try to identify the employee candidates that are likely to be loyal. In other words, prospects for the internal market are equally as important as segmentation objects in the external market.

Some researchers have stressed the importance of additional actors. Reichheld (1996) pointed out that it is important for a company to find loyal investors. A company should try to find the right type of investors. Gummesson (1994) discussed a number of different types of relationships a company can have with e.g. customers, employees, investors, suppliers, media and government. A company should identify the most important relationships with the different parties.

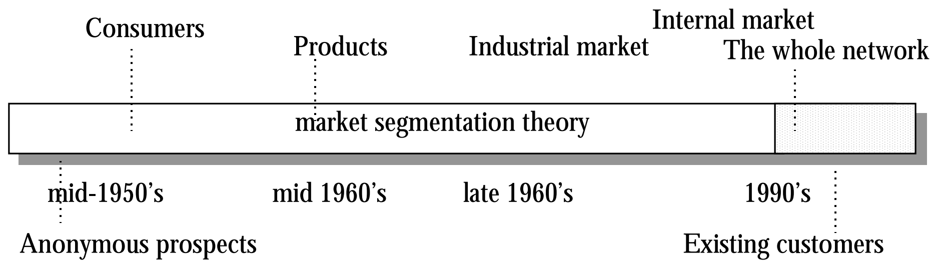

Figure 5: The objects of segmentation

One important difference between the early and the later approaches is the size of the segment. The early approaches have mentioned that it is important to determine the size of the different segments in order to be able to make decisions about which segments to target. The impression has been that the greater the size of the segment the more attractive it is for a marketer. The later approaches, however, have discussed very small segments consisting of only one customer, i.e. segments of one. One can always wonder if we are talking about market segmentation anymore. Treating customers as individuals and taking notice of individual needs and wants does not sound like segmenting anymore.

However, it can be argued that although a company would aim to treat its customers as individuals, the process of market segmentation is needed in order to determine which customers the company needs to start building learning relationships with. The company can examine its existing customer relationships and identify those customers who are profitable to serve on a more individual basis. Mass customisation may be applied to produce goods or services that match the individual needs and preferences better.

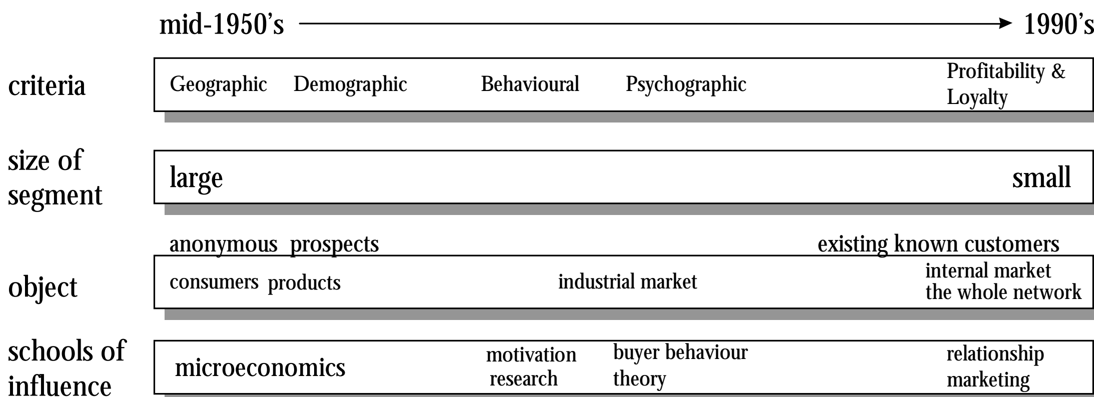

Figure 6 Different dimensions of market segmentation

The evolution of the studied dimensions of market segmentation theory is summarised in Figure 6. The study focused on the criteria and object of market segmentation. An

additional interesting dimension came up during the study; the size of the segment. As the illustration shows, the desired size has been decreasing during the process of development. The fourth dimension in the illustration takes up some schools or disciplines within marketing theory that I have found important to the development of market segmentation theory.

4.4 The eras of market segmentation theory

Market segmentation theory has developed during its history. The following periodisation scheme is suggested: era of foundations, development and blossoming, stillness and re-emergence.

4.4.1 The era of foundations

Market segmentation soon became one of the basic elements taught to students on their first marketing course. The concept appeared in the 1950's and soon became a central issue. Wendell Smith (1956) recognised several reasons why market segmentation started to raise its head in the mid-1950's. The minimum size of efficient manufacturing units decreased and manufacturers were able to produce smaller quantities cost-effectively. He claimed also that the advancements in technology made it possible to produce goods with variety. Also the changes in the retail structure towards more self-service required better adjustments to consumer demand. With no sales people selling the goods, the goods had to sell themselves. The competition had also intensified. More and more goods were competing for the consumers' money. The period between 1930 and the mid-1950's can be characterised as the *era of foundations*. During this period, the essentials for market segmentation theory emerged in the field of microeconomics.

4.4.2 The era of development and blossoming

During the period between the mid-1950's and the late 1970's, segmentation was one of the most discussed marketing topics. During this period, market segmentation theory developed into the form described in present marketing textbooks. Therefore, this era can be characterised as the *era of development and blossoming*. Different segmentation criteria were discussed vigorously. Researchers tried to find relationships between buying behaviour and different person or product characteristics. Different segmentation objects

were discussed starting from consumers and products in the beginning of the era, to industrial markets in the late 1960's.

> *"Market segmentation has been steadily moving toward center stage as a topic of discussion in marketing and research circles. Hardly a conference passes without at least one session devoted to it. " Haley (1968:30)*

> *"..the concept of market segmentation has produced a phenomenal proliferation of articles, studies and papers in the past decade." Bieda and Kassarjian (1969)*

4.4.3 The era of stillness and stagnation

Towards the 1980's the researchers started to loose interest in segmentation theory. It was still one of the most essential issues in marketing, but the development of the concept stopped. Possibly discouraged from the results of previous studies, researchers had lost their interest in finding new criteria. New contributions to the concept of market segmentation were rare, and mostly discussed the statistical methods for determining the segments. No new criteria were presented during the 1980's nor were any of the previously suggested ones scientifically proven. *The era of stillness and stagnation* contributed little to market segmentation theory.

4.4.4 The era of re-emergence

During the 1990's we have witnessed the emergence of a number of new approaches to market segmentation. A number of researchers have contributed new segmenting criteria, such as loyalty and profitability. New objects for market segmentation have also been suggested, such as internal markets and external networks. The focus of personal characteristics has changed to relationship characteristics. In other words, it is now suggested that we should segment *relationships*. The reasons for this re-emergence can be explained by the change in focus of many researchers from transactions to relationships and networks. There has been a discussion of a paradigm change in marketing. This would explain the era of stillness during the 1980's. The dominating paradigm of the 1980's was the marketing management concept. This concept has its roots in the 1960's, when the discussion around market segmentation theory flourished. The theory reached its point of maturity, and the researchers believed they had studied everything that was interesting.

A paradigm steers the way researcher's think and sets the rules for the game. A paradigm determines what research questions are experienced as worthwhile. If a researcher is dominated by a paradigm he might be blinded for other research questions. As Gummesson (1991) explains, the research process can be compared to digging a hole. The paradigm determines the location of the hole and the researcher starts digging. Once he is deep enough he is unable to see what is surrounding him, and if there would be any other places to dig. When a new paradigm comes along or the previous paradigm is questioned, the researcher can climb up from his hole and start looking around.

	Marketing Theory	Market Segmentation Theory	Environmental Condition
the era of foundations 1930- mid-1950's	"sales era"	emerges from the field of microeconomics	advancements in production, possible to produce smaller quantities, development of large-scale retailing
the era of development and blossoming mid-1950's- late 1970's	"marketing era" marketing management buyer behaviour theory service	extensive number of studies published • geographic • demographic • behavioural • psychographic	competition increases
the era of stillness and stagnation 1980's	marketing industrial marketing (IMP)		growth of service economy
the era of re-emergence 1990's-	relationship marketing	emergence of new approaches: loyalty and profitability as segmentation criteria size of the segment decreases the object of segmentation loyal customers, external partners and internal market	development of information technology mass customisation

Figure 7 Antecedents and consequences of market segmentation theory

I suggest that this happened in the 1990's. Market segmentation was an uninteresting concept to study as long as the researchers thought there was nothing new to be found. I was once asked "who would ever want to study something as boring as market segmentation where there is nothing new to be discussed?". When the marketing management approach started to be questioned in the late 1980's, many researchers became interested in market segmentation theory once again. Interestingly, many of the latest contributors to market segmentation have come from the field of services

marketing, especially financial services and banking (e.g. Storbacka 1994 , Berry 1998, Elliot & Glynn 1998). Another interesting fact is that service marketing textbooks (e.g. Grönroos 1983, Berry 1995, Zeithaml, Parasuraman & Berry 1990) do not discuss market segmentation at all.

In the late 1990's, a number of economists and management scholars have declared that the era of mass production and mass distribution is finally over. According to Lampel and Minzberg (1996:21) advancements in technology, increased competition and more assertive customers are leading companies towards the customisation of their products and services. Sheth and Parvatiyar (1995:408) suggest that rapid technological advancements, the adoption of total quality programs, the growth of the service economy, organisational development processes and an increase in competitive intensity have created a need for a change in the way of thinking in marketing.

4.5 The logic of market segmentation

What is the impact of the latest contributions to market segmentation theory? It is not a question of finding new criteria or new objects. The most important difference deals with the basic notion of market segmentation theory. The first article dealt with the strategic implications of the concept, but soon the focus of segmentation research shifted to finding new segmentation criteria. Researcher after researcher tried to show relationships between different variables and buying behaviour. In the quest of finding valid segmentation criteria, the researchers neglected other aspects of the concept, such as who we should segment and why.

Bieda and Kassarjian (1969) suggest that perhaps the major problem behind the poor results was that in an effort to segment markets, marketers had forgotten what the theory was based on: different people have different needs which may change at different times. Bieda and Kassarjian discuss the methodological logic of the research in the field of market segmentation. The researcher has first selected an arbitrary group of products that he thinks are serving the same market. Then data on different variables has been collected and analysed to find if buyers of different brands can be classified according to some variable. If a strong relationship has been found, the researcher has tried to show cause and effect. The assumption has been that the characteristic that divided the consumers into groups must be the cause of the need for the product. The reasoning has been that since the person had the characteristics and bought the product and because he

would not have bought the product unless he needed it, the characteristic must be a cause of the need.

How do the new approaches differ from the traditional perception of market segmentation? The later approaches all have one thing in common: they focus on segmenting the *existing customer base*, whereas the previous approaches focused on *potential customers*. This is the most significant difference between the old and the more recent perceptions of market segmentation. Nevertheless, the later approaches stress the importance of the profitability and loyalty of the customers while the traditional approach discusses more personal characteristics as the basis for segmenting the market. In other words, the later approaches focus on *relationship characteristics,* in contrast to the traditional focus on *personal characteristics* of the consumer. So, instead of segmenting consumers we are segmenting relationships.

The previous approaches to market segmentation have segmented anonymous prospects with pre-determined criteria. The later approaches stress the importance of long relationships, and the focus is on segmenting the existing customer base according to profitability and loyalty.

4.6 Summary and contributions

The initial sparkle to this study came from the recognition that there was something inconsistent between relationship marketing and the theory of market segmentation. Relationship marketing emphasised long-term customer relationships whereas market segmentation focused on anonymous, potential customers. The purpose of this study was to deepen the understanding of market segmentation theory. This was done by studying the evolution of the concept, and by identifying the antecedents and consequences of the theory. The research method was influenced by content analysis and meta-analysis and was focused solely on theories. The evolution of market segmentation theory was studied as a reflection of evolution of marketing theory.

This study suggests that market segmentation has developed through its history. It has its roots in microeconomics and it has been influenced by different disciplines, such as motivation research and buyer behaviour theory. The contribution of this study was the suggestion that the evolution of market segmentation theory can be divided into four major eras: the era of foundations, development and blossoming, stillness and stagnation, and the era of re-emergence. Market segmentation theory emerged in the mid-1950's and

flourished during the period between mid-1950's and the late 1970's. Then, the theory lost its interest in the scientific community. No significant contributions to the theory were made during the 1980's. Now, towards the end of this millennium, new approaches have emerged and market segmentation has gained new attention. The environmental conditions, especially the advancements in information technology, and the changes in marketing theory require a revisited approach to market segmentation. As the focus of marketing theory shifts from transactions to long-term relationships the focus of market segmentation theory should shift from anonymous prospects to existing customers. The size of an ideal segment decreases towards a segment consisting of only one customer. Segmenting the internal market, suppliers, investors and other actors in a company's network becomes as important as segmenting the customers. In short, the evolution of market segmentation theory can be said to have developed from one segment to a segment of one.

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