The basis of market segmentation: a critical review of literature

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Abstract
This article addresses the research question, what is the best method of consumer market segmentation. It deals with the issues that are already discussed by the researchers and also identifies the research gap for the further researches. It focuses on the definition, basis of market segmentation and issues related to market segmentation in detail. This research paper will provide information about the knowledge gap and will show a path for future research in the area of market segmentation, which is the heart of marketing now a day.

Keywords: Market segmentation, basis of segmentation, marketing

1. Introduction
Today where the world is being recognized as global village marketing has become vital ingredient for every business success. It is almost become difficult to every competitor to survive in market for a prolonged period because competition is cut to throat. Change or die is the core faith of marketing. That is why development of right marketing strategy over time is required. Right marketing Strategy is something that helps companies achieves marketing objectives. Marketing objectives help achieve corporate objectives and corporate objectives aim to achieve a competitive advantage over rival organizations. Effective marketing strategies or marketing campaigns often consist of a combination of several marketing tactics that work together in a synergistic way to establish your brand, reduce sales resistance, and create interest and desire for your product or service. Today marketing is every where, formally or informally, people and organization engage in vast number of activity that we call as marketing.

But still there is one constraint before all companies that they can not connect to all customers in large, broad or diverse market Every company want to focus on customers within there capacity and with customers intimacy. For this market is to divide into groups of consumers or segments with distinct needs and wants. This strategy of dividing the market in homogenous group is known as segmentation. Even companies, who have mass marketing phenomena, are now adopting this new world’s strategy i.e. segmentation. The purpose of segmentation is the concentration of marketing energy and force on subdividing to gain a competitive advantage within the segment. It’s analogous to the military principle of concentration of force to overwhelm energy. Concentration of marketing energy is the essence of all marketing strategies and market segmentation is the conceptual tool to help in achieving this focus.

The marketer must try to understand the target market’s needs, wants, and demands. Need can be described as basic human requirements. People need food, air, water, clothing, and entertainment. These needs become wants when they are directed to specific objects that might satisfy the need. An American needs food but wants hamburger, French fries and a soft drink. Wants are shaped by one’s society (Kotler, 2000).

Cartwright (2002) is of the opinion that need is something that people cannot do without; a want is the method by which people would like the need to be satisfied. Demands are wants for specific products backed by an ability to pay (Kotler, 2000).

Market segmentation was first put forward in the middle of 1950s by Wendell R. Smith, an American professor of marketing. “Market segmentation is to divide a market into smaller groups of buyers with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes.” (Charles W. Lamb 2003). Segmentation is the process of dividing the market into groups of customers or consumers with similar needs. The more closely the needs match up, the smaller the segment tends to be.
but the higher the premium customers are likely to be prepared to pay to have a product that more exactly meets their needs (Blythe, 2003). Segmentation allows marketers to identify distinct groups of customers whose behaviours significantly differ from others. This allows firms to adjust their marketing mix, to cater to particular needs of different market segments. Four segmentation bases have emerged as the most popular in segmentation studies (Kotler, Armstrong, Saunders, & Wong, 2002): geographic segmentation (i.e. markets segmented by geographic region, population density or climate); demographic segmentation (i.e. markets segmented by age, sex, size and family type, etc.); psychographic segmentation (i.e. markets segmented by life-style variables); and behavioural segmentation (i.e. markets segmented by purchase occasion, benefits sought, user status). The segmentation base chosen to subdivide a market will depend on many factors such as “the type of product, the nature of demand, the method of distribution, the media available for market communication, and the motivation of the buyers” (Chisnall 1985).

Segment congruence analysis usually progresses in the following manner:
1. Traditional dimension-reducing techniques such as factor and cluster analysis are used to identify a number of segmentation bases (batteries of variables).
2. These segmentation bases can then serve as categorical variables and a multidimensional, contingency table is formed.
3. Various categorical data analysis tests are carried out on the multi-way table to assess the nature and extent of associations among its dimensions.
4. A segmentation base is identified as the distinguished base and a model is developed for predicting this base from other (possibly external) variables.

The present paper highlights the definition and major basis of market segmentation. This research paper is broadly divided in to four parts. First part deals with the steps of market segmentation and its basis. Second part deals with the benefits of market segmentation. Third part includes the theoretical and empirical evidences in favor of market segmentation. Fourth and the last part discuss about the conclusion.

2. Steps in Market segmentation
According to Charles W. Lamb and Carl McDaniel (2003,), the first step in segmenting markets is to “select a market or product category for study”. It may be a market in which the firm has already occupied a new but related market or product category, or a totally new one. The second step is to “choose a basis or bases for segmenting the market”. This step requires managerial insight, creativity and market knowledge. There are no scientific procedures for selecting segmentation variables. However, a successful segmentation plan must produce market segments which meet the four basic criteria: “substantiality, identifiably, accessibility, and responsiveness”. The third step is “selecting segmentation descriptors”. After choosing one or more bases, the marketer must select the segmentation descriptors. Desciptors identify the specific segmentation variables to use. The fourth one is to “profile and analyze segments”. The analysis should include the segment’s size, expected growth, purchase frequency, current brand usage, brand loyalty, and long-term sales and profit potential. This information can then be used to rank potential market segments by profit opportunity, risk, consistency with organizational task and objectives, and other factors which are important to the company. The fifth step is to “select target markets”. This step is not a part of the segmentation process but a natural result of it. It is a major decision that affects and often directly determines the firm’s marketing mix. The last one is “designing, implementing and maintaining appropriate marketing mixes”. The marketing mix has been described as product, distribution, promotion and price strategies which are used to bring about mutually satisfying relationships with target markets.

Roger Best (1990) proposes a framework for implementing a market segmentation strategy. He suggests a set of sequential steps to be taken in a needs-based segmentation process the primary benefit of needs-based segmentation is that segments are created around specific customer needs. The goal is to determine what observable demographics and behaviors differentiate one segment from another in order to make need-based market segmentation actionable.
Key Steps in a Needs-Based Market Segmentation Process.

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<th>Steps in Segmentation Process</th>
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<tr>
<td>1 Needs-Based Segmentation</td>
<td>Group customers into segments based on similar needs and benefits sought by customer in solving a particular consumption problem. For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable.</td>
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<td>2 Segment Identification</td>
<td>Using predetermined segment attractiveness criteria, determine the overall attractiveness of each segment.</td>
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<td>3 Assess Segment Attractiveness</td>
<td>Determine segment profitability (net marketing contribution).</td>
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<td>4 Evaluate Segment Profitability</td>
<td>For each segment, create a &quot;value proposition&quot; and product-price positioning strategy based on that segment’s unique customer needs and characteristics.</td>
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Market segmentation strategy is an adaptive strategy. It consists of the operation of the market with the purpose of selecting one or more market segments which the organisation can target through the development of specific marketing mixes that adapt to particular market need.

2.1 Bases of Market Segmentation Strategy:
Consumer market can be segmented on the following customer’s characteristics:

- Geographic
- Demographic
- Psychographic
- Behavioural

**Geographic Segmentation:**
The following are some example of geographic variables often used for segmentation:

- Region: By Continent, Country, State or by neighbourhood also
- Size of metropolitan area: Segmented according to population size
- Population Density
- Climate
Demographic Segmentation:
Demographic segmentation variables include:
- Age
- Gender
- Family Size
- Family Life Cycle
- Income
- Occupation
- Education
- Generation
- Ethnicity
- Nationality
- Religion
- Social Class

Psychographic Segmentation:
Psychographic segmentation variables include:
- Interests
- Activities
- Opinions
- Values
- Attitudes

Behavioural Segmentation:
Behavioural Segmentation is based on actual customer behaviour towards products.
Some behavioural variables include:
- Benefits Sought
- Usage Rate
- Brand Loyalty
- User Status
- Readiness to buy
- Occasions

Craft, Stephen Show in his study that in general, customers are willing to pay a premium for a product that meets their needs more specifically than does a competing product. Thus marketers who successfully segment the overall market and adapt their products to the needs of one or more smaller segments stand to gain in terms of increased profit margins and reduced competitive pressures. Small businesses, in particular, may find market segmentation to be a key in enabling them to compete with larger firms. Many management consulting firms offer assistance with market segmentation to small businesses. But the potential gains offered by market segmentation must be measured against the costs, which—in addition to the market research required to segment a market may include increased production and marketing expenses.

Markets and the customers who make up those markets are not homogeneous (Claycamp and Massy, 1968; Smith, 1956). Wendell Smith (1956) suggested that segmentation, the division of a market into groups of customers who share certain characteristics or propensities toward a product or service, might be an effective way for an organization to manage diversity within a market. Since that time, a rich literature has developed suggesting techniques and bases upon which a single domestic market might be effectively broken into actionable customer segments.

While there is a large literature which focuses on the criteria that can be used for segmenting a market, far less attention appears to have been paid to the accompanying requirements for what Kotler (1998) terms effective segmentation. Thomas (1980) argued that any proposed segmentation should pass four tests, namely with reference to measurability, accessibility, stability and substantiality. However, there are differences in the number and types of tests.
Baker (1996) includes *uniqueness* as an extra condition defining a "viable market". Kotler et al (1998) omits stability and uniqueness but includes action *ability*. Each test is variously described as a requirement or condition for establishing segment viability. The rationale for each test is re-examined and substantiality is shown to be unique, requiring a more precise definition. The formula - segmentation, targeting, positioning (STP) - is the essence of strategic marketing." (Kotler1994). Market segmentation is an adaptive strategy. It consists of the partition of the market with the purpose of selecting one or more market segments which the organization can target through the development of specific marketing mixes that adapt to particular market needs. But market segmentation need not be a purely adaptive strategy: The process of market segmentation can also consist of the selection of those segments for which a firm might be particularly well suited to serve by having competitive advantages relative to competitors in the segment, reducing the cost of adaptation in order to gain a niche. This application of market segmentation serves the purpose of developing competitive scope, which can have a "powerful effect on competitive advantage because it shapes the configuration of the value chain." (Porter 1985).

According to Porter, the fact that segments differ widely in structural attractiveness and their requirements for competitive advantage brings about two crucial strategic questions: the determination of (a) where in an industry to compete and (b) in which segments would focus strategies be sustainable by building barriers between segments (Porter, 1985).

Through market segmentation the firm can provide higher value to customers by developing a market mix that addresses the specific needs and concerns of the selected segment. Stated in economic terms, the firm creates monopolistic or oligopolistic market conditions through the utilization of various curves of demand for a specific product Category (Ferstman C., & Muller E., 1993). This is an expanded application of the Microeconomic theory of price discrimination, where the firm seeks to realize the highest price that each segment is willing to pay. In this case the theory's reliance on price is Segmentation as a process consists of segment identification, segment selection and the creation of marketing mixes for target segments. The outcome of the segmentation process should yield "true market segments" which meet three criteria: (a) Group identity: true segments must be groupings that are homogeneous within segments and heterogeneous across groups. (b) Systematic behaviors: a true segment must meet the practical requirement of reacting similarly to a particular marketing mix. (c) The third criteria refer to efficiency potential in terms of feasibility and cost of reaching a segment (Wilkie, 1990). In addition, Gunter (1992) recommends considering the stability of market segments over time and different market conditions.

In 1964, in “New criteria for market segmentation”, Daniel Yenkelovich asserted that:

- Traditional demographic traits such as age, gender, education level and income, no longer said enough to serve as a basis of market segmentation.
- Non-demographic traits such as values, tastes, and preferences were more likely to influence consumers’ purchasing than demographic traits.
- Sound marketing strategy depended upon identifying segments that were potentially receptive to a particular brand and product.

Most techniques of market segmentation rely only on descriptive factors pertaining to purchasers and are not efficient predictors of future buyer behavior. The author proposes an approach whereby market segments are delineated first on the basis of factors with a causal relationship to future purchase behavior. The belief underlying this segmentation strategy is that the benefits which people are seeking in consuming a given product are the basic reasons for the existence of true market segments.

Despite the well-documented benefits which segmentation offers, businesses continue to encounter implementation difficulties. This raises important concerns about the cause of these problems and how they might be overcome. This paper states that When planning the approach, it is important to think about segmentation in three stages: before, during and after. This highlights the questions which should be addressed at each stage. In particular, it is helpful to maintain an awareness of segmentation success factors. This research paper tries to the answers of the above stated questions with the help of available literature related to the segmentation.

3. Benefits of market segmentation:

3.1 Why segment your market?
Companies must work harder to ensure that their marketing has the greatest impact possible. Increasing competition makes it difficult for a mass marketing strategy to succeed. Customers are becoming more diversified and firms are constantly differentiating their products relative to competitors. When the focus is on segmented markets, the company's marketing can better match the needs of that group. Market segmentation allows firms to focus their resources more effectively, and with a greater chance of success. Marketing, product and brand managers are continuously being asked to increase their return on investment. They are constantly searching for new information about their markets, and new ways to approach them. This is where market segmentation comes in.

3.2 Divide and Conquer

Market segmentation focuses on that subset of prospects that have the greatest potential of becoming customers and generating revenue. Companies who segment their markets match their strengths and offerings to the groups of customers most likely to respond to them.

- Differentiate your products and services to meet your customer needs and desires.
- Design or redesign new products and services to meet your market needs.
- Find hidden needs and make improvements to your existing products.
- By selecting and focusing on the most responsive segments to the exclusion of others, marketing can be created to more effectively fit your consumers. Finding, understanding and focusing on the needs of your best customers can make you a market leader.
- Target your marketing mix to the customers most likely to want your products or services
- Identify behaviors and buying motives for your products.
- Identify your most and least profitable customers.
- Help you avoid unprofitable markets.
- Increase brand loyalty and decrease brand switching.
- Learning more about your competitors makes you more effective
- Improve your competitive positioning to be more accurate and better differentiate you from the competition.
- Reduce competition by competing in a more narrowly defined market and establishing a niche. Market segmentation is a proven way of improving profitability. By focusing on individualized sub groups, you're better able to meet their needs and gain higher market share and profits.
- Refine your pricing to maximize revenue.
- Find markets where you can increase your price.
- Optimize your marketing resources and get the most impact for your investment
- Focus and match your activities to things you can do effectively and profitably When segmentation is done right, you get the highest return for your marketing expenditure.

4. Theoretical and empirical evidences in favor of market segmentation:

There are many factors which can be responsible for market segmentation traditional as well as modern or new. Amandeep singh (2011) reveals in his study that earlier demographic factors were considered as best basis of segmentation but they are no longer effective for segmentation in FMCG sector. An investigation of 500 consumer’s purchase routine and their demographic attribute are found non-associated in this study. This study shows that purchasing of FMCG products specially personal care products is indifferent of age, educational level. But there is an effect of gender and educated and non-educated consumers on the purchase routine of personal care products. It means there is a need for developing more effecting marketing segmentation basis. This study is related to only one industry may not be applicable to others. But it is rightly proved that demographic which are considered as most effective attribute that influence the purchase of consumer not powerful enough in today life.
Victoria K. Wells, Shing Wan Chang, Jorge Oliveira (2010) in their study present an idea that benefits sought are more powerful basis of brand choice. They also reveal the idea that demographic attributes are not very effective in case of brand choice and in price selection.

The demographic variables of interest were age, gender, household size, occupation, education and level of income. Results of this study shows the demographic influence on choice of retail outlet is partial with household size, education and income having a significant effect on the choice of retail outlet selected. This study shows that some of the demographical factors like education, income and household size effect the choice of retail outlet and definitely the choice of brands also (Salma Mirza, 2010).

In a different way Rajiv Kamineni (2009) present the idea that demographic is now failed to effect segmentation and only psychographic is not sufficient to segment today's complex market in which consumers have a different type of ideology. This study gives an idea about new basis of segmentation that can be applicable with the help of Enneagram that is an ancient technique of personality indicator. This technique has a combination of psyche and spirituality of personality. This study gave a different idea about segmentation which is not in practice but can be proved very useful.

Michel Wedel (2002) in his editorial article states that market segmentation has now become a necessity of marketers. One to one marketing is no feasible because it need great amount of money and efforts that directly affect the profit of the company. This article put stress on an understanding of the dynamic nature of preferences and market segment composition is essential for strategies focused on the evolution rather than the proliferation of products and businesses.

Amandeep Singh (2010) in his study highlights the need of using a new theoretical foundation of market segmentation which will help the FMCG companies to segment the market in competition oriented marketing to gain fruitful results. This research paper proposes 5 golden rule of market segmentation which are as:

1. There are “No Rules”: Getting it right isn’t simple at all. But never copy. Each successful segmentation process is different, unique, and unrepeatable. The "me too” attitude leads to failure. Originality could possibly break a market open.
2. “Reducing” a market? Sometimes it’s about expanding it. Some of the most successful marketing plans have chosen a larger market by “expanding” their segmentation, not only reducing it.
3. The “Value” of the segment: The best segments must have Potential, Lifespan, Accessibility, and Profitability. The key is identifying which segments provide value in terms of potential, lifespan, accessibility and profitability; because a sales strategy’s effectiveness increases according to our capacity to size segments, identify them, and dissect them.
4. It must be “Different”: Each company requires a different Market Segmentation. Being original and efficient with segmentation is the key to the amount of success achieved. We create new and personalized ways of segmenting, creating Hybrid models that are easy to interpret and explain (causes, value, behavioral, psychographic, demographic, and attitudinal) in order to obtain the most useful results from each sectorial situation and each company.
5. Choosing “The Axes” properly: Time segmentation and spending causes, demographic but with attitudinal axes, and Psychographic but with a behavioral aspect? Surely there is an answer, but to find it we must investigate, test, and challenge the market.

Higgs, Bronwyn and Ringer, Allison (2007) in their study discusses about the different segmentation basis and shows that a number of specialized segmentation approaches are emerged in the changing environment.

The author suggests some of the following specialized method of market segmentation:

- Finer and Hyper-segmentation
- Progressive Profiling
- Addressable marketing method

Finer segmentation defined as a more precise way to segment markets into narrow clusters. Progressive profiling involves incremental data collection across sessions and interaction points typically online. Addressable marketing exploits the potential of digital communications devices to gather information about online behaviors including site visitation, site engagement, and content involvement and advertising exposure.
However different basis of market segmentation has their importance in different market but in today’s competing market only traditional basis as demographic, geographic, psychographic and behavioral are not enough. Other factors as benefit sought, ethnocentric approach etc. are also playing their role to segment the consumer market.

Russell I. Haley (1968) proves that most techniques of market segmentation rely only on descriptive factors pertaining to purchasers and are not efficient predictors of future buyer behavior. The author proposes an approach whereby market segments are delineated first on the basis of factors with a causal relationship to future purchase behavior. The belief underlying this segmentation strategy is that the benefits which people are seeking in consuming a given product are the basic reasons for the existence of true market segments.

5. Challenges to the future research:
Finding and choosing the proper bases for market segmentation is an important marketing research issue. Many researchers have tried to segment the international market since Liander, Terpstra, Yoshino, and Sherbini presented the first systematic effort towards a quantitative approach to market selection in 1967. There are millions of consumers all around the world with different needs and wants (Kotler & Armstrong 2001). It is impossible for companies to design a marketing mix that would suite every consumer’s needs, that will say that the same product, with the same price, place and promotion technique would appeal to every consumer. In some cases when the product is universally used and unbranded can mass marketing work. In other situations it is important for a company to recognize the fact that they can not target their product and advertising to all consumers. Companies need to make a strategic choice and to identify what part of the market is best suitable for them and their product. Important criteria’s to be considered are that there are enough customers in the segment in order for the company to be able to make profit, the consumer segments purchasing behavior is suitable and that the competition from other companies is not too great. (Gunter & Furnham 1992) When dividing the market into smaller homogeneous groups based on geographic, demographic, psychographic or behavioral factors is called market segmentation (Kotler & Armstrong 2001, Gunter & Furnham 1992). Consumers with similar characteristics and consuming habits are divided into segments so that the product mix suites the segment and so that the company efficiency is stable. It is impossible for a company to target all consumers therefore a company must make a strategic choice. (Weinstein 1994).

Market segmentation is important in order for a company’s marketing strategy to work properly (Weinstein 1994, Gunter & Furnham 1992). This is because old traditional class patterns no longer exist and consumers have more income to spend. It is therefore important to divide consumers into segments that are more manageable and based on the needs of the segment. This also enables the further developing of the product to the right direction. Targeting all consumers would lead to unnecessary effort to attract consumers and high advertising expenses. It is necessary for companies to understand the consumer segment that they are focusing on regarding factors as age, values, purchase behavior, attitudes and so forth, in order to become successful. (Gunter & Furnham 1992).

Demographic segmentation is one of the most widely used ways of dividing consumers into segments (Gunter & Furnham 1992, Kotler & Armstrong 2001, Weinstein 1994). In general when speaking about demographic factors mostly demographic and socio-economic factors are combined together as one. Socio-economic factors differentiate consumers by economical factors and social classes into segments (Gunter & Furnham 1992, Weinstein 1994). In demographic segmentation the consumers are divided by their age, gender, income, education, religion and life-cycle stage into different segments (Gunter & Furnham 1992, Kotler & Armstrong 2001, Peattie 1995).

Demographic segmentation is commonly used by companies as the factors are easy to identify and measure. For example it is easy to estimate a person’s age and know what gender the person is. This makes it easier and less costly for companies to gather information about the consumer. (Gunter & Furnham 1992, Kotler & Armstrong 2001)

However, relying only on demographic factors has been criticized for being an untrustworthy segmentation strategy. People with the same demographic factors may differ greatly from each other, base on their beliefs and attitudes. The research results regarding demographic factors and their influence on consumer
behavior, especially regarding environmental products, are unclear and not always in correlation. (Straughan & Roberts 1999)

Another method used to identify and study consumer segmentation is psychographic segmentation. Psychographics where mainly developed by researchers in the late 1960’s in order to provide a better picture of what consumers think and believe. In the beginning motivation and personality research was used but because of small samples and low correlation they did not provide accurate information about consumer behavior and the segments. In psychographic segmentation values and lifestyles of the consumer are examined. (Gunter & Furnham 1992) However researcher still debate on what constitutes as psychographics and what does not (Weinstein 1994). The psychographic factors are more difficult to notice compared to the demographic factors but usually believed to be a more accurate way of identifying consumer segments. Psychographic factors are for example social class, political orientation, personality characteristics, altruism and environmental concern. (Straughan & Roberts 1999) Psychographics have also been called lifestyle or activity and attitude research. Some researchers use activities, interests and opinions when others values and trends in order to determine psychographic segmentation. (Weinstein 1994)

Psychographics enables the marketing research to draw a better picture of the consumer segments as psychographics analyses consumer behaviour, what are the motives of the consumers, and why do they act as they do? Companies many know who buys their product but not why theses specific consumers buy. (Weinstein 1994) It is necessary for researchers and companies to better understand how the consumer think and believe. By combining this information to geographic or demographic information a much better picture of the segments can be obtained. (Gunter & Furnham 1992, Weinstein 1994)

Understanding how the consumer thinks can also help companies to position or repositioning their products on the market. Psychographics also help to improve products so that they better suite the needs of the consumers and that the price is set good on a market. Psychographics can further improve communication methods as advertising channels when the better understands how the consumer feels. Knowing more of the consumer can also provide companies information to explore new distribution channels or improving old ones. (Weinstein 1994).

Now the question arises that what should be the basis of market segmentation. The answer of this question was given by number of researchers in different context but that is not implemented at all. In conclusion, we can say that two interesting observations found after review of the existing literature related to market segmentation, which are as:

1. The selection of basis of market segmentation is completely dependent upon the industry and product type itself.
2. Critically it can be stated that demographic may prove as good basis for segmentation but everything is dependent upon the psyche of the consumers.

6 Conclusions:

In the literature there is dominance of demographic and psychographic factors for segmentation but critically I observe that there is great influence of extraneous variables as price, trends, and market conditions on the purchase of the consumers. Furthermore, the strength of link between traditional basis and market segmentation depend critically many more extraneous variables provided by market and consumer’s conditions; hence, research in this line would add some value to the literature in the area of segmentation. It is also observed that segmentation is completely dependent upon all four traditional bases not on single one. This facilitate that there is need of further research in market segmentation area in different specified areas to find the dominating basis of market segmentation.

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