INTERNATIONAL MARKET SEGMENTATION IS VITAL AND DIFFERENT FROM DOMESTIC

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Abstract

With the expansion of world economy, there are so many enterprises occur around the globe. Simultaneously, the business competition among them is becoming more and more intensely and consumers are also diverse in needs and wants. Thus, the exact market segmentation is absolutely essential for business success and market gains. The globalization forces now at work push many companies to extend or reorganize their marketing strategies across borders and target international segments of customers. It is the basic premise of this paper that the concept of market segmentation is at least as applicable to international marketing as to domestic marketing. Segmentation research is however much more complicated, and to a large extent a neglected area of study in both international companies and universities. . The purpose of this paper is, therefore, two-fold: first to highlight the nature and importance of international market segmentation; secondly, to review briefly some of the possible bases for segmenting international markets.

Keywords: Market, International market segmentation, International marketing, Diverse needs

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1. Introduction

International market segmentation has become an significant issue in developing, positioning, and selling products across countrywide borders. It helps companies to aim potential customers at the international-segment point and to get an appropriate positioning across borders. A key challenge for companies is to efficiently deal with the structure of diversified consumer needs and desires across borders and to target segments of consumers in poles apart countries. These segments reveal geographic groupings or groups of individuals and consist of potential consumers who are likely to exhibit alike responses to marketing efforts. In international markets the advantages of segmentation appear potentially at least as great if not greater than in domestic markets. Because of differences in the cultural, economic and political environment between various countries, international markets tend to be more diverse than domestic markets. The range of income levels, the diversity of life-styles and of social behaviour is likely to be notably greater when considering the world as opposed to a national market. The existence of such heterogeneity provides extensive possibilities for identifying different segments. In addition the mere size and diversity of the international market may increase the need for and desirability of segmentation. A policy of segmentation helps to ease problems arising from such misconceptions, since it requires explicit consideration of the magnitude and relevance of differences and similarities between foreign countries and their implication for customer responses.

Segmentation in world markets also provides a number of advantages from an organizational standpoint. Following the logic of price discrimination, if segments with different elasticities of demand with regard not only to price but also to other marketing variables can be identified, then different levels and combinations of marketing effort may be directed at each segment. Thus marketing activities may appropriately be planned, organized and controlled by segments. Information on international markets may be collected and organized by segment. Management of overseas activities may be administered by segment and the segment may provide the appropriate unit for evaluation and control.

The advantages of segmentation may thus be hypothesized to be in part a function of the diversity and size of the market considered. Depending on the number and range of countries involved, a firm operating in the international arena may find a segmentation strategy more appropriate than a firm which operates only in a domestic market. If one accepts this premise, the question is not whether to segment the international market but when to segment (profits from segmentation are greater than the cost involved) and how to segment (what bases for segmentation should be considered). Since both decisions require certain information inputs it is first necessary to design an appropriate research strategy.

Literature Review

Market segmentation

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 behaviours who might require separate products or marketing mixes." (Charles W. Lamb, 2003, p. 214). Or explained in another way, market segmentation is the division of the whole market into smaller, relatively homogeneous groups.

Different marketing professors have different explanations of market segmentation. Peter D, Bennett ed, a faculty member at Pennsylvania State University, gave a more specific and detailed definition of market segmentation in his Dictionary of Marketing Terms. According to him, market segmentation is the process of subdividing a market into distinct subsets of customers that behave in the same way or have similar needs. Each subset may conceivably be chosen as a market target to be reached with a distinctive marketing strategy. The process begins with a basis of segmentation—a product specific factor that reflects differences in customers' requirements or responsiveness to marketing variables (possibilities are purchase behaviour, usage, benefits sought, intentions, preference or loyalty). Steven C.Wheelwright, Senior Association Dean of Harvard Business School, defined in this way: market segmentation consists of clustering the firms' potential consumers in groups (called market segments) that clearly differ from each other but show a great deal of homogeneity within the group. In other words, the objective is to find groups of consumers who share the same or similar preferences. However, it is also important that the so-created groups be sufficiently different from each other.

Although so many definitions of market segmentation are given with different words, the core of market segmentation is that it's a set of potential customers alike in the way they perceive and value the product, in their purchasing behaviour, and in the approach they use the product.

The Role of market segmentation

Until the 1960s, few companies practiced market segmentation. However, recently it has become popular and played an important part in the marketing strategy of almost all the successful organizations. Market segmentation has been a powerful marketing tool for several reasons.

Most importantly, nearly all markets include groups of people or organizations with different customer needs and preferences. Market segmentation helps marketers define customer needs and wants more accurately. Secondly, market segmentation is useful for firms to find market opportunities. Under the situation of buyer's market, the marketing strategy of the business should be made to find attractive market environment opportunities. Thus market segmentation is the right tool to achieve the goal. Because by market segmentation the enterprise can know what needs have been satisfied, what needs have been met partially and what wants are still the potential ones. Accordingly, that what commodities are of fierce competition, and what commodities need to be developed will be found. Therefore, market segmentation provides the enterprise with new market opportunities. Thirdly, it helps the company master the features of target markets. Fourthly, it is significant for the enterprise to design marketing mixes. Market mix is a kind of marketing plan made by business through considering product, price, sales promotion, selling place and other factors. There is only one best mix for each specific market and the best mix is achieved only by market segmentation. Fifthly, through market segmentation small companies can develop market and survive among the big companies. Customer needs vary greatly and are different from each other, so even if it is a big company, its resources are limited and couldn't satisfy all the needs of the whole market. In order to exist, the small companies should make use of market segmentation to segment the whole market so as to find the market segments which are suitable for their own advantages and where wants and needs are still not satisfied. The last but not least, market segmentation makes it easier to get feedbacks and regulate the marketing strategy. Because in the market segments, enterprise supplies different products for different market segments and makes suitable marketing strategy for each market segment. As a result, it is more convenient to get market information and perceive the responses of customers. All these are of great importance for the business to develop the potential needs and adjust the strategy in time.

Findings

The Steps in segmenting markets

As the above shows that market segmentation is the key strategy for almost all the successful organization. Thus, learning how to segment markets is becoming very pressing. According to Charles W. Lamb and Carl McDaniel (2003, p. 228), 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, identifiability, accessibility, and responsiveness". The third step is "selecting segmentation descriptors". After choosing one or more bases, the marketer must select the segmentation descriptors. Descriptors 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.

The steps mentioned above are the basic steps for enterprises to segment their markets, but every enterprise has its own situation and marketing strategy. Therefore, each enterprise should adjust its steps to segment the market in accordance with its own market on the basis of the basic steps.

BASES FOR SEGMENTATION

In designing segmentation research, one faces the pitfall of considering as possible bases for segmentation only some obvious country characteristics such as geographical location and level of economic development. Since most international companies do not follow a conscious strategy of segmentation, let alone engage in segmentation research, it is the purpose of this section to briefly highlight some of the possible bases for segmentation at the macro-country level, recognizing of course that once a macro-segment has been identified, the specific bases to be selected should be based on customer characteristics which do not differ from the ones used in domestic segmentation.

A) General country characteristics

General country characteristics have generally received the greatest attention as determinants of international demand. This may largely be due to the wealth of information available on such characteristics, as for example in the U.N. and U.S. Department of Commerce publications and to the ease of identification of these characteristics.

Geographic location

One of the most popular and commonly used bases for grouping countries is by geographic location. Thus a firm might develop different strategies in selling to customers in Europe as opposed to Asia or Africa. Countries in dose geographic proximity often have similar cultural patterns and climatic conditions. For example, European countries tend to have similar cultural habits, just as the Far Eastern countries form a distinct cultural group. Thus different types of products, such as food items, leisure equipment, clothing or apparel may be most appropriate for the different regional groups. Regional divisions also provide a convenient organizational structure for the company from both the administrative and a cost standpoint.

Demographic or population characteristics

Demographic characteristics such as the age structure of the population may also provide a convenient basis for segmentation, for example, companies selling products which are particularly geared to a certain age group such as baby foods, geriatric items and records. Similarly the number and relative importance of different racial groups in a country might affect the diversity of cultural patterns within a country, and suggest a need to deal with each racial group separately.

The level of socioeconomic development

The level of socioeconomic development is also traditionally considered an important determinant of buying patterns for both consumer and industrial goods.

In the case of industrial goods, the level of economic development tends to be associated with the degree of industrialization of the country, and hence with demand for certain types of complex industrial products, such as sophisticated electronic products or information services. Equally in the case of consumer goods, the level of socioeconomic development may affect the size of the market for a particular product as well as the type and quality of products bought. Countries with low levels of economic development may not have mass markets for luxury items such as auto- mobiles, air conditioning, household gadgets, etc.

However, in some emerging countries, income distribution may be highly skewed with a very small proportion of the population with very high levels of income, thus providing a restricted market for expensive luxury items, such as jewellery and clothes. Countries at different levels of socio- economic development also tend to have different educational levels, standards of living and rates of economic growth which may significantly affect purchasing patterns. For example, countries with high percentage of literacy and high levels of education, such as Japan, may provide a better market for health items, vitamins, art goods, scientific instruments and other education dependent items than countries with comparable G.N.P. but lower levels of education.

Use of the level of development as a base for segmentation poses some questions in terms of an appropriate unit of measurement. G.N.P. per capita has been one of the most commonly used measures of economic development. However levels of expenditure are clearly not the sole nor even the most critical socioeconomic determinant of expenditure patterns. Thus, more complex measures of socioeconomic development, including for example, educational levels, level of technology and degree of urbanization, may provide a more appropriate indicator of consumer buying patterns. Although a number of attempts have been made to develop indices of this nature, little is known concerning the relationship between such indices and consumption other than in very general and broad terms.

Cultural Characteristics

Another potentially useful basis for segmentation is cultural characteristics. Attitudes toward social institutions are features of different cultural patterns. Thus, factors such as the importance of family as opposed to group influences, and the status of women in society may affect purchasing behaviour. Where women have low status they may be considerably less influential in purchase decisions than in societies such as the U.S. where they have a relatively high status. For example, Singer, in selling sewing machines in Middle Eastern countries, found that their agents had to sell machines to the husband rather than the wife, and further had to convince him that this would make the wife more efficient and productive, rather than save her time and effort.

Different cultures are also characterized by differing degrees of receptivity toward change. This influences the willingness to accept radically new products and new ideas. The American culture tends to be highly receptive toward and actively interested in change, to the point of valuing products for their novelty and newness alone. In more tradition-oriented societies such as Great Britain change may be regarded as highly undesirable and traditional and established products more highly valued, resulting in considerable resistance to new products and ideas and style changes.

Differences in belief systems between cultures may also affect purchasing patterns. Dietary laws associated with particular religions will clearly affect food purchasing patterns. Differences in ethical beliefs may also play an important role. For example, the emphasis on hard work associated with the Puritan ethic may result in a rejection of “convenience” or “labour-saving” appeals. The aesthetic aspects of culture clearly have implications for marketing strategy. Preferences for different types of colour and design must be considered in product and package design. Language differences might imply not only the need for translation of a standard message into another language, but also differences in cultural association and therefore in the type of appeals used. Different cultures may be characterized by certain personality types. To the extent that personality traits affect needs and motivations, this may have important consequences for purchase behaviour.

For example, the German orientation toward authority and orderliness observed by Spindler may lead to greater susceptibility to appeals emphasizing legitimation by authority figures, or appeals to hard work. But although culture is intuitively an appealing base for segmentation it is difficult to use due to both conceptual and operational problems, i.e., the existence of such cultures and the difficulties in defining and measuring cultural characteristics.

Political factor:

The type of political regime may also provide a basis for international segmentation. Although little is known on the differences in purchasing patterns of societies with different political systems, this appears particularly appropriate for industrial goods. The character of the political system may influence buyer motivations, the role and position of

the decision-maker and the constrains affecting the buying decisions. It is seen likely that there will be differences in the relative importance of various marketing mix elements in state-controlled enterprises as opposed to free enterprise countries. Furthermore government control of enterprise might result in a higher degree of centralization in purchasing agencies or bureaucracies. In developing countries, state officials may be the crucial gate- keepers in obtaining a contract.

B) Situation specific country characteristics

Considerably less attention has been paid to the consideration of the role of national characteristics specific to particular purchase situations and products. Three specific sets can be identified: (a) economic and legal environmental factors; (b) market conditions such as the degree of competition, business attitudes, stage in product life cycle, state of technology and the characteristics of the intermediate market organization; and (c) product bound culture and life style characteristics.

Economic and legal constraints

Economic and legal restrictions may play an important role in influencing demand for specific products. Government economic policy may affect the climate of demand for certain types of products through directing resources toward the production of certain commodities and thus stimulating demand for specific production inputs. Government assistance to agriculture and to infant industries may stimulate demand for certain types of industrial goods. In Jamaica, for example, the government programme to assist and encourage cooperation among independent farmers has helped to stimulate demand for small mechanized farm equipment. The imposition of tariffs or taxes on certain goods such as luxury items or alcohol, may tend to dampen demand for such items. In some cases import taxes will tend to restrict the size of the market and limit the product to higher income groups. This may however also give the product greater prestige; for example, Danish furniture and cookware, English woollens. Specific legal restrictions such as patent agreements, quality standards and controls may also influence product specification. For example in sales of pharmaceutical products, local legislation concerning ethical drugs is a crucial factor in determining whether or not a particular product can be sold in a given country. Regulation on consumer credit may also have an important effect on demand for major household appliances. For example in the United Kingdom, relative ease of obtaining financing is an important factor in stimulating demand for major consumer durables. Conversely, difficulty in obtaining consumer credit is considered to be an important factor in restricting demand for consumer durables in the Middle East.

Marker conditions

A second set of characteristics which affect demand for a particular product are general market conditions, such as the degree of competition, business attitudes, stage of product life cycle, state of technology and the nature of the intermediate market organization. The degree of competition in a particular market will affect response by customers to alternative marketing strategies as well as their perception of the price and quality characteristics of firms. For example, if a product is subject to resale price maintenance customers may be more sensitive to quality differences or to store variables In convenience foods brand loyalty may be stronger since the advantages of brand switching are perceived as small.

Business attitudes may affect the type of marketing strategy pursued by organisational buyers. In markets characterized by dynamic progressive business attitudes, buyers are likely to engage in a higher degree of search, be more inclined to pursue aggressive purchasing policies, etc. The stage of the product life cycle in a given country may also affect the nature of buyer interests and needs. Where a product is at an early state of its life cycle, consumers may need to be convinced of the desirability or need for the product, and to be made aware of potential uses Where the product is already accepted, emphasis may be on new features or uses or on specific attributes of the particular brand. Polaroid, for example, in introducing the

Swinger into Europe had to educate customers on the advantages and uses of “on the spot” development, since previous Polaroid models had not been widely sold in Europe. The stage in the life cycle of competing or associated products is another relevant factor. For example, sales of small labour-saving household gadgets such as electric carving knives and can openers may depend on whether major types of appliances have previously been purchased. A further factor affecting demand is the level of resource technology. Many products have certain “support” requirements, for example refrigerators are necessary for the sale of frozen foods, electronic data processing equipment requires knowledge by someone of how to operate it. Thus sales of certain technologically complex products may depend on the availability of certain skills to handle and to maintain them. The nature of the intermediate marketing organization may also affect the character of demand. In international markets the role of marketing intermediaries may become particularly crucial, since in many cases they may be in an important power position in the channel. In overseas markets wholesalers and retailers are frequently the “ channel captains ”. Thus “selling” the intermediate marketing organization may be more crucial than “selling” the final customer.

In addition the number, size and type of outlets as well as purchasing policies may affect demand for certain products. For example, the number and extent of self-service outlets may determine whether certain items such as frozen foods can be mass- distributed. The number and size of retail outlets will both reflect and influence the frequency of purchasing and the size of the package purchased. There is little room for the giant or king-size package, familiar in the U.S. supermarket, in the tiny neighbourhood superettes which abound in Europe or in the small shops of the Far East.

Product bound culture and life style characteristics

Differences in the general life style and cultural values may also affect ‘attitudes toward specific products. For example, the French, compared with other Western countries, are noted for spending a considerable amount of time entertaining outside the home. This results in less interest and importance attached to home furnishings and to the role of the home as an expression of the family's taste and social position. Similarly cultural values associated with material possessions may affect which products reflect status. For example, in Britain, possession of traditional and inherited items carries greater status than possession of expensive modern items or Scandinavian furniture which are valued by middle-class America.

But although national characteristics are useful in providing an initial base for segmentation, substantial variations in purchasing behaviour may exist within countries, for example between regions and social classes. Thus national characteristics alone are not enough to provide an adequate base for segmentation. In addition the marketing manager must delve beyond generalizations about market response to examine customer characteristics within a country and purchasing patterns of different sub-groups within a culture. The problem of interaction between country and customer characteristics further underlies the importance of investigating customer characteristics within a country. Just as in a domestic market emphasis on identification of customer interests is required to develop appropriate marketing strategies, so in international markets it is doubly important to avoid generalizations and misconceptions due to lack of study and familiarity with the foreign environment.

5. CONCLUSION

One of the major problems confronting the international marketing manager faced with the breadth and diversity of international markets is how to identify potential target segments, and what information to collect for this purpose. A systematic two-step procedure to identify and analyse target segments has been proposed. First, countries can be divided into similar groups on the basis of national market characteristics. Then within these groups markets can be further segmented on the basis of differences in customer characteristics within each group. The initial examination of national characteristics reduces the cost and effort of the research task entailed. Attention can quickly be focused on countries with high potential rather than laboriously examining customer characteristics in each country one by one.

The approach also enables consideration as bases of segmentation not only of general country characteristics such as political, economic and geographic characteristics, but also the situation specific characteristics. While the situation specific characteristics such as the distribution system competition are not normally included in traditional classifications of countries, they are often crucial in determining the potential or feasibility of a given target segment.

It is not enough, however to consider only country characteristics in attempting to identify relevant market segments. Classifications of countries on the bases of country characteristics appear to provide only very weak indicators of marketing behaviour in a country. Thus further investigation of both general and situation specific customer characteristics within a country is required to identify relevant target segments. The relevancy of the various alternative bases will depend to a large extent on the particular product considered. In any specific case the appropriate base will depend on the size of given product or service, the firm's objectives and constraints and the potential size of the segment, the ease of its measurement, its accessibility and the cost of reaching that segment. In international markets the latter is in many cases likely to be more crucial. Research should therefore be directed not only toward identifying the relevant country and customer characteristics, but also toward evaluating the cost and benefits anticipated from segmenting on a given base.

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