

Market segmentation and targeting on consumer satisfaction



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The research reported in this thesis was on “ An assessment of the affect of market segmentation and targeting on consumer satisfaction”. The purpose of this research was to determine how efficient market segmentation and targeting can affect the level consumer satisfaction and to educate marketers and entrepreneurs on how to effectively segment and target the market. The secondary data was collected by referring to articles on the internet and libraries and through books by renowned authors. The primary data was collected by distributing questionnaires. Once the data was collected SPSS 15 software was used to generate cross tabulations and frequency tables to analyze the data efficiently. It was determined that all the variables under consideration had a significant effect on the dependent variable, i. e consumer satisfaction.

CHAPTER 1

INTRODUCTION

Market segmentation and targeting are two of the most fundamental concepts of marketing. They have been recognised since the 1950's and are still holding strong as new techniques are developed to carry out these two processes efficiently so that profitability can be achieved by companies and effective marketing plans can be formulated to satisfy consumers.

Efficient market segmentation is necessary for a company or a product to be successful. The main purpose of market segmentation is to recognise the segments which will be most interested in the product or service a company is offering. By recognising these segments one can fully evaluate their needs and wants , and adjusts one product/service accordingly to meet them.

Potential segments are then evaluated and analysed to choose one segment that will be targeted.

Consumer satisfaction is necessary for any consumer product to be successful in market. Consumer satisfaction is something that can neither be easily defined nor easily achieved. Over the years several definitions of consumer satisfaction have emerged. There is no question that consumer satisfaction is necessary for good financial performance. It has been determined through various researches that consumer satisfaction and profitability are positively related.(Anderson, Fornell, & Lehmann, 1994; Eklof, Hackl, & Westlund, 1999; Ittner & Larcker, 1998)

Background

Over the years stress has been laid on the importance of effective market segmentation and targeting to result in consumer satisfaction. Consumer satisfaction is of different levels and this has been portrayed by the “ Three factor theory of consumer satisfaction”(Matzler and Sauerwin 2002). The three types of factors given in this theory are:

Basic factors (dissatisfiers): least amount requirements results in dissatisfaction if not fulfilled. However if fulfilled or exceeded , they do not result in consumer satisfaction

Excitement factors (satisfiers) : these factors result in satisfaction if provided but do not result in dissatisfaction if not fulfilled.

Performance factors (hybrids) : results in satisfaction if performance is high and to dissatisfaction if performance is low.

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It has been observed that some people may find something to be a basic factor while others may find it to be insignificant. Not much research has been carried out in the sector of consumer satisfaction as it is hard to measure and many people have conflicting views on how to measure it. Many professionals however, are of the belief that it needs to be carried out and not on aggregate level but on a segment level.

Market segmentation has always been of great significance to marketers and they have used it time and again to segment markets to promote their products and services. It is very useful if accurately and effectively used and was introduced in the academic marketing literature in the 1950's .

The main purpose of market segmentation is to identify small groups of people with similar set of needs and preferences. Thus segments are formed and this is considered to be above mass marketing as the marketers now have a greater chance of effectively analysing the segments needs and wants and can " better design, price, disclose and deliver the product or service" as stated by Kotler. This gives segmentation marketing an edge over mass marketing.

Philip Kotler in his book Principles of Marketing has identified four ways in which a market can be segmented:

Geographic Segmentation

Demographic Segmentation

Psychographic Segmentation

Behavioural Segmentation

Geographic segmentation is when a market is segmented according to its geographical location. Demographic segmentation is when a market is divided into cluster according to factors such as age, income, gender, life stage etc. Psychographic segmentation is done according to psychology and demographic. Lastly behavioural segmentation is done according to one's attitudes and beliefs.

There are conflicting views on which segmentation technique should be employed to segment the market. Some say that the choice depends on the type of product / service which is to be provided while some say that it depends from situation to situation. Another view is that a multidimensional approach of segmentation should be employed. Therefore, there is no hardcore rule which states which type of segmentation is the best and most appropriate.

The next step to be followed after segmentation is targeting . Targeting is the process in which the best segment is chosen and it is to this segment that a company focuses its attention on. The product / service are therefore aimed at the people belonging to this segment and a company pays special attention to catering to their needs and desires. The attractiveness of a segment according to McQueen and Miller (1985) can be judged according to profitability, accessibility and reachability. The main purpose of most companies is to make as much money as possible from the selected market segment. Henceforth, profitability is considered to be one of the main variables according to which a target market is selected.

Importance of study

Globally not many researches have been carried out to determine the relationship between consumer satisfaction and market segmentation and targeting. Considering the level of importance these three concepts hold in the marketing world, studies should be conducted on this topic. Such studies would be of extreme value to marketers and potential entrepreneurs as they would give them a general guideline and suggestions on how to segment their market and to derive consumer satisfaction and profitability.

Due to the ever changing segmentation techniques research articles relating to these topics should be written every now and then to make the concerned people aware of the changes in technology. Another reason is that market segments may change over time. Therefore such a research concerning a particular company should be carried out after every couple of years so that the company continues to prosper rather than sink in debts and losses due to lack of customer satisfaction.

Research on this topic keeping Pakistan as the basis of study is even lower. There are hardly any articles present regarding Pakistan. This is another main reason for conducting this research as this thesis would be based on the Pakistani market and its needs and wants. Furthermore the marketers and entrepreneurs in Pakistani are much more ignorant to the techniques of effective market segmentation and targeting than their counterparts in the west. They have limited knowledge and are therefore not able to derive as much consumer satisfaction or profitability as their western counterparts would have if they were in their position. Thus to instil them with knowledge

more studies apart from this should be done and much importance would be given to them as in Pakistan they are relatively few in number.

Research Question

“ Concentrating on the telecommunication market of Pakistan, which variables of market segmentation and targeting would result in consumer satisfaction?”

Scope of the Study

In order to make this research more specific and to avoid errors I have only concentrated on psychographic segmentation and focused on the telecommunication market as giving attention to the needs and desires to all types of markets would be nerve wrecking and highly unlikely , and would result in a great amount of inaccuracies and errors. I believe that complete comprehension of this study would greatly help the marketers and entrepreneurs of Pakistan.

CHAPTER 2

LITERATURE REVIEW

Jang and Leary (2001) in this study determine benefit segments of the Japanese travel market and the optimum target market. The importance of market segmentation is highlighted in this study as the author states that by market segmentation the marketers are able to understand the needs and wants of the travellers and are therefore able to act accordingly. Also to select the optimum target market, profitability of a segment is the most significant criterion. Benefit segmentation used in this article, however the article is beneficial due to the profitability and risk concepts used which have

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not been used in previous studies. Previous studies with respect to target market selection not as beneficial as there was no comprehensive understanding of profitability of the selected market segments. Cluster and factor analysis used to for grouping and segmenting the benefit factors. This technique may be used for any other form of segmentation too. Chi squared and ANOVA tests used to find out any statistical differences between the clusters. Profitability, risk, risk-adjusted profitability and relevant segment size measures were then formed to determine the optimum target cluster. It was determined through this research that by segmentation marketers can be assisted to come up with effective marketing strategies. More researches need to be carried out by using other variables such as activities and satisfaction and other form of segmentations. Furthermore profitability and risk should be considered as without it marketing strategies cannot be successful.

Bo Hu and Hong Hu (2006) conduct an exploratory research as segmentation is done on the beliefs and emotions shoppers associate with craft selection criteria. Market segments also evaluated on profitability, accessibility and reachability criteria. The various factors which determine the type of crafts travellers will choose were determined and the level of shopping involvement measured. To carry out the research, data was collected from 199 respondents. Exploratory factor analysis and then cluster analysis, both hierarchical and non- hierarchical, were done to form cluster segments , each consisting of people with similar needs. Lastly ANOVA and chi square test were done to determine any significant difference between the clusters. Concluding , it is stated that the criteria for selecting crafts is

multi dimensional and that involvement plays a significant role to determine a traveller's interest in a craft and for segmentation of travellers.

Furthermore marketing strategies should be developed by giving attention to economic return on investment. In addition differentiated marketing strategies should be used to target segments with different behaviours and attitudes; however there is no point in targeting the indifferent segment as there would be no generation of profits from it.

Fuller and Matzler (2008) conduct a research based on the roles played by basic, performance and excitement factors in different lifestyle market segments. There was a need to carry out this study as the three factors differ from segment to segment and thus the consumer satisfaction provided by a product attribute should not be measured on a collective level. A company should keep performance factors in consideration as they are directly connected to consumers needs and desires and therefore satisfaction. A research was carried out on the customers of an alpine resort to determine how the three satisfaction factors between various lifestyle segments. Data was collected online from 6172 respondents from various alpine resorts in the form of questionnaires. Firstly an exploratory and confirmatory factor analysis and then cluster analysis in which customers were segmented into similar groups was done. It was determined that customer satisfaction cannot be evaluated effectively on an aggregate level as it differs across various market segments. Thus the three factors also differ across various segments. Furthermore if lifestyle segments differ in their needs a lot and therefore marketers should decide which segment to target. From such researches marketers are assisted in their decision making process

regarding products and services and thus this lead towards higher customer satisfaction.

Mazonni and Addeo(2007) researched on the characteristics of Italian cell phone users. A multi dimensional segmentation approach was used consisting of consumer/user lifestyles, use motivations and product/service attributes. It was stated in the article that consumer lifestyles tells one about values and psychological characteristics, socio demographic indicators, spending behaviours and mass media exposure. User motivation concerns consumer need. The data, which includes variables, was collected through focus groups, past research papers, and questionnaires which were distributed to 100 persons. Factor analysis was then done and three clusters for cell users emerged; techno fun, value driven and basic users. It was determined through the research that multi dimensional approach is more effective in identifying consumer needs and assisting companies to come up with strategic plans. Due to the various segments present companies also need to come up with various products and services to satisfy consumers. In order to have a place in the market all these products and services should cater to varying market segments and not just one. Also simple segmentation approaches which consist of only a few variables are less useful than a multiple segmentation approach, such as used in this study, which assists marketers to reach potential customers through various marketing means.

Chebat and Ruiz (2004) carried out an exploratory research to segment customers on the basis of the activities performed on a visit to the mall. The main objective of this research was to determine if clustering consumers

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according to activities performed in shopping malls result in stable and substantial segments and whether there were any significant differences among these clusters. Data was collected by distributing questionnaires in a shopping mall when there was so promotion going on. P- median clustering is used to cluster factors to come up with segments. Chi Square tests were then carried out to determine differences among the clusters Perception, emotional, behavioural, socio- demographic , geographic variables which were are all part of psychographic segmentation were used in this research and the clusters formed varied from one another based on these factors. The new method was successful in identifying activities among customer. The study concluded that activities are a good way of segmenting consumers in the field of retailing. The activities of clients of each segment differ from another and therefore marketers need to come with strategies which cater to each of these segments. Furthermore research in this area is very weak, so more researches should be conducted . Also segmentation tells us immensely about a shopper's profile, but the real victory would be when the results are properly implemented.

In the research carried out useful market segments are identified and then targeting is used to choose valuable ones from this study group. These valuable ones (actionable segments) are the segments which are more likely to spread the positive image of the place they visited previously and thus consist of satisfied consumers. By identifying such segments , marketers would be greatly assisted in coming up with new marketing and promotion strategies which would eventually lead to increased customer satisfaction. A criterion based analysis is used in which the relations between

a dependent variable and various independent variables are examined and then different segments are identified. Firstly questionnaires were distributed which consisted of questions regarding the tourists sentiments towards marketing (TSTM) . These sentiments were in respect to the last place they visited. The sample size was 1500. Then CHAID (Chi- square automatic interaction detection) was used to distinguish between the actionable and non actionable segments. To check for inconsistency in demographics and trip characteristics of various segments, chi- square and ANOVA tests were used followed by logit modelling. The study concluded that product satisfaction, pricing and service assistance determine how actionable a segment will be. Segments which are highly actionable are the most valuable segments and should be targeted by marketers to increase their profit margin.

Bigne and Andreu(2004) conducted a research to segment tourists based on emotions such as pleasure and arousal arising from leisure and entertainment experiences. Russel (1980) bidimensional approach is used in the study. Aim of the research is to identify loyal and satisfied emotional based segments. It has been proved previously that consumer satisfaction leads to brand loyalty. Furthermore there is a need to determine emotion as segmentation variable and to determine its relationship with consumer satisfaction. The consumers for this research are ones who go to museums and theme parks. For carrying out the research data was collected from both qualitative and quantitative methods. Interviews of employees were conducted and two consumer focus groups were held. Questionnaires also distributed to a sample of 400 consumers. Chi squared test was conducted

and then a cluster analysis done to determine if the pleasure and arousal emotion items are enough for segmentation. Lastly ANOVA test was carried out to outline the previously determined clusters. The study concluded that emotions indeed are a substantial for market segmentation. This can be achieved through cluster analysis. Emotions and consumer satisfaction are related, as the types of emotions of a segment do determine its level of satisfaction with the service or product. Therefore by understanding emotions managers and marketers can come up with new marketing strategies to improve their product in order to give rise to the right kind of emotions which lead to consumer satisfaction.

Wicks and Lee (2003) in this study segmented visitors attending 2000 world culture expo using motivation factors. Differences between foreign and domestic groups are determined and it is also evaluated if the motivation factors or whether if a foreign or domestic group affects the overall satisfaction level of a segment. Firstly 34 motivation factors were generated using previously held research on visitor motivation. These factors were then incorporated into a questionnaire and measured using a likert scale. The questionnaires were distributed to a sample size of 726 visitors. A factor analysis was done on the 34 motivation factors and then to check for any significant differences between the segments, multi-variate statistics were used. To check if the type of visitors and motivation factors affected the satisfaction of a particular segment, ANOVA test was conducted. In conclusion, for visitors six motivation dimensions were spotted. The cluster analysis informs the marketers about the motives of the people in the various segments and it helps them to come up with marketing strategies.

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Furthermore significant differences were found between the needs and wants of the domestic and foreign visitors and this implies that event managers should satisfy all of them.

Gilboa (2008) presents a study which focuses on the psychographic segmentation of Israeli mall customers. It uses the various behaviours and activities of the customers, and their socio-demographic characteristics. The three customer behaviours on the basis of which segmentation is done are; customer motivation to visit the mall, activities performed by customer, and the frequency of visits. Data was collected from 636 candidates, of which 335 were customers at the mall who filled out questionnaires. The rest of the respondents were contacted by phone. In the questionnaire several questions were asked about the factors pertaining to the visit to mall, and thus factor analysis was done. A two-step cluster analysis was then done to form distinct clusters, each cluster consisting of people with similar needs and wants. Concluding, four different groups of customers were identified which were; disloyal, family bonders, minimalists, and mall enthusiasts. Another point to be noted is that culture greatly affects customer behaviour and therefore this study was an addition in understanding how culture affects consumer behaviour patterns. More research needs to be carried out all over the world to understand the effect of culture on consumer behaviour in any industry.

Bork and Uncles (2002) main purpose in this study is to investigate the differences between customers by referring to previous researches and by doing so helps marketers to determine the type of segmentation technique they should use to maximise customer satisfaction and profits. Consumers
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differ on the basis of geography, demographics, behaviours, decision-making processes, purchasing approaches, situation factors, personality, lifestyle, psychographics etc. By differentiating customers it can be easier to decide on variables in the segmentation process. The five ways in which consumers can differ are; preferences for product benefits, consumer interaction effects, choice barriers, bargaining power and profitability. By thinking like this segmentation problems can be better understood. Some of the problems faced in determining these differences are measurement difficulties and lack of empirical understanding of the type of differences stated above. Lastly it should be ensured that useful segmentation is followed which has a positive effect on the overall business performance of a company.

CHAPTER 3

METHODOLOGY

Research Type

The research type is primary and qualitative. Depth interviews, group discussions and questionnaire analysis are three main methods used to collecting qualitative research. The research is mainly exploratory as this type of research has not been conducted in Pakistan and data had to be collected and evaluated.

Data type and Research period

Data was collected through first hand experience and is therefore primary. Questionnaires were used to collect the data. The time period of the research is current March 2011

Sources of data

The sources of data were questionnaires which were distributed among the common people who use mobile phones to find out how the independent variables affect their level of consumer satisfaction.

The questionnaire consisted of 16 questions that have to be rated on a scale of 1 to 5, 1 being the lowest and 4 being the highest, based on how much the respondent agreed with the question. The participants were expected to fill out the questionnaire with as good as no bias at all.

Population, Working population and planned sample

The sample taken for the research is from Lahore which has an approximate population of 6319000 approx. The working population consists of the average layman from a middle or upper middle class, ranging from the age of 15-45. The sample size consists of 50 people, and I have taken in account 25 males and 25 females.

Theoretical Framework

The dependent variable is consumer satisfaction. The independent variables are market segmentation and targeting. Targeting is further subdivided into profitability. To narrow down the research concentration would only be given to one type market segmentation , that is psychographic presentation.

Psychographic Segmentation is divided into lifestyles, motives and personality.

Operational Definitions

Consumer Satisfaction: defined by Oliver (1980) is formed by way of a cognitive comparison of perceived performance of a product or service and the expectations the customer had before the purchase

Market Segmentation: to identify the segments that are most interested in specific goods and services and to focus marketing effort on them in the most effective way. It allows for homogeneous smaller markets to be found thereby helping marketers to identify marketing opportunities and to develop products and services in a more tailor made manner. Correct market segmentation is believed to lead to consumer satisfaction.

Targeting: the process of evaluating various segments on the basis of accessibility, reachability and profitability and selecting target segments. It is the next step after segmentation. The ultimate aim of market segmentation is to make most money from the target markets. Therefore profitability plays an important role in determining the attractiveness of each segment and selecting the best target market. Profitability is directly related to consumer satisfaction according to this research based on literature reviews. A satisfied consumer is one who does not hesitate to spend money.

Psychographics: the science of using psychology and demographics to better understand consumers. (Philip Kotler)

Lifestyles: give general indicators on values and psychological characteristics on individuals besides providing socio demographic indicators, spending behaviours and mass media exposure.

Motives: concern consumer needs, desires and basically emotions of the consumers. It can be defined as a complex set of interactions among subjective and objective factors, mediated by neural/hormonal systems, which can give rise to affective experiences such as feelings of pleasure and arousal.

Research Hypothesis

The hypothesis which have been generated through the theoretical framework and literature are the following

H_E³: Profitability has a significant effect on consumer satisfaction.

H_A, _I : Profitability does not have a significant effect on consumer satisfaction

H_E³: Lifestyles have a significant effect on consumer satisfaction

H_A, _I : Lifestyles do not have a significant effect on consumer satisfaction

H_E³: Motives have a significant effect on consumer satisfaction

H_A, _I : Motives do not have a significant effect on consumer satisfaction

H_E³: Personality has a significant effect on consumer satisfaction

H_A, _I : Personality does not have a significant effect on consumer satisfaction

Data techniques and Analysis

After collecting data through questionnaires it needed to be analyzed properly and effectively. To achieve this, according to the data , cross

tabulations and frequency tables have been generated using software SPSS 15 to prove the hypothesis.

Data Interpretation

The results generated from SPSS 15 were thoroughly and critically analyzed to determine the significance of the independent variables on the dependent variable.

CHAPTER 4

RESULTS AND ANALYSIS

Results and Analysis

Results and Interpretation

After the data was obtained by distributing questionnaires among the telecommunication market, Excel was used to compile the data and SPSS 15 was used to obtain tables regarding cross tabs and frequencies. These tables have now been thoroughly analysed to prove whether our null hypothesis is correct and to draw conclusions.

Table 1: Cross tab of habits determining the choice in service and personality fulfilment resulting in consumer satisfaction

Do you think your habits determine the type of service you use?

Total

2. 00

3. 00

4.00

5.00

2.00

If your mobile service caters to your personality does it result in consumer satisfaction?

2.00

0

2

5

0

7

3.00

1

3

4

1

9

4.00

5

7

11

3

26

5.00

0

3

3

2

8

Total

6

15

23

6

50

H_E³: Personality has a significant effect on consumer satisfaction

H_A, H₁ : Personality does not have a significant effect on consumer satisfaction

This cross tabulation shows that 11 people who strongly agree that the mobile service which successfully caters to their personality result in consumer satisfaction also strongly agree that their habits determine the type of service they use. Therefore a person chooses a service according to one's personality (habits, attitudes, traits) and if all his personality factors are successfully catered too, consumer satisfaction results. This means that our alternate hypothesis that personality has a significant effect on consumer satisfaction is accepted.

Table 2: Cross tab of surviving if network is down and consumer satisfaction due to lifestyle catering

Can you survive without using your phone if the network is down? Does a mobile service by catering to your lifestyle lead to consumer satisfaction?

Does a mobile service by catering to your lifestyle lead to consumer satisfaction?

Can you survive without using your phone if the network is down?

Total

1. 00

2. 00

3.00

4.00

5.00

1.00

2.00

0

1

0

2

0

3

3.00

4

4

1

2

2

13

4.00

6

7

5

4

3

25

5.00

5

1

2

1

0

9

Total

15

13

8

9

5

50

H₀³: Lifestyles have a significant effect on consumer satisfaction

H_a, \dagger : Lifestyles do not have a significant effect on consumer satisfaction

The cross tabulation shows that 7 people who agree that they cannot survive without using their phone if the network is down also say that if a mobile service caters to their lifestyle needs , it results in consumer satisfaction.

Therefore for a majority of the people its lifestyle needs should be satisfied and this would eventually result in consumer satisfaction. We can henceforth accept our null hypothesis that lifestyles have a significant effect on consumer satisfaction.

Table 3: Cross tab of willingness to spend as much money as required and consumer satisfaction due to spending of money

Does more money you spend means the more satisfied you are? Are you willing to spend as much money on a mobile service as required?

Are you willing to spend as much money on a mobile service as needed?

Does more money you spend means the more satisfied you are?

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Total

2.00

3.00

4.00

5.00

2.00

1.00

3

1

0

0

4

2.00

5

3

2

0

10

3. 00

2

0

5

3

10

4. 00

0

2

15

5

22

5. 00

0

0

4

0

4

Total

10