

The importance of market segmentation



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Market segmentation is one of the most important concept in marketing and business (Bowen, 1998). It is believed that segmentation is the most powerful tool to develop strategies and to understand market (Richard and Sundaram, 1994). Segmentation that carried out properly will actually boost up sales and profits (Reid, 1983). However in contrary, the industry players which in this case restaurant seems to believe that by segmenting their market will actually narrow down their business, they tend to believe that price is the most effective tool to attract and win the market (Crawdford-Welch, 1994). Finally, looking to the reasons of the pro and contra, the researcher decided to segmenting the market further which are by psychographic or the lifestyle and behaviouristic or the purchase occasion. It is because the researcher believed that by segmenting the market may lead to understand the market deeper and therefore can come out with right strategies. To this end, the following section will reviews the literature on market segmentation which focus on Generation Y, psychographic and behaviouristic, next will also review about the factors influencing Generation Y in choosing restaurant and last but not least type of consumers by psychographic segmentation.

2. 2 The importance of market segmentation

Market segmentation does exist because it is believed that market is not similar (Beane and Ennis, 2007) and it is very important as this is a marketing strategy that contributes to business or industry players (Bowen, 1998). Segmentation can actually act as a key to enhance sales and profits while it can help to maximize the usage of facilities by the specific target market, besides that, it as well help to penetrate new market segment and

to maintain repeater (Reid, 1983). Besides that, it is as well open up new chances to create new product and advertising strategy (Beane and Ennis, 2007). Kotler (1980) believed that in order for segmentation to be useful and effective, it must be measurable, accessible and substantiable. Kotler (1980, pp. 308) mentioned that “ a segment should be the largest possible homogeneous group of buyers that it pays to go after with a specially designed marketing program”. Segment is opportunity (Beane and Ennis, 2007). For instance, senior customers take quality of food as their first concern (Knutson and Patton, 1993). While for young customers, food quality is not the most important factor in choosing restaurant (Soriano, 2002). These show that different generation has different demand and need, therefore it is necessary for industry players to understand clearly the characteristics and the trends of each generation. However, industry players in this case restaurants seem to believe that by focusing on one market, it is not effective as it may reduce the sales volume. Most of the industries players emphasize on price while they believe it may attract and retain customers but at last it actually drive to less profit (Crawford-Welch, 1994). It is not a false to target more than a market segment, however, different segment has different characteristic, and hence it is unnecessary to have all discount or price reduction while it is not the most important thing for some market segment. On the other hand, a theory of restaurant revenue management believed that it is important to maximize revenue by keeping the balance of demand and supply but without putting aside customer satisfaction (Kimes, 2004).

2. 2. 1 Four major markets segmentation

Kotler divided market into four main areas which are geographic, demographic, psychographic and behaviouristic. Geographic segmentation is the simplest segmentation. It is to differentiate customers by region, climate and population density. Demographic segmentation in the other hand is the most common segmentation. This is perhaps because demographic segmentation provides the easiest information and allows it to be transferred from one study to another study (Beane and Ennis, 2007). The segmentation divided by age, sex, income, education level, type of family, nationality and race (Beane and Ennis, 2007). Psychographic segmentation or known as lifestyle segmentation is a complicated segmentation as it demands way of life and social class. According to Plummer (1974) psychographic segmentation gives better answer in describing segments compare to demographic segmentation. Last but not least is behaviouristic segmentation, it consists of purchase occasion, benefits sought, user status, degree of usage, degree of loyalty, readiness stage, and marketing factor sensitivity (Kotler, 1980). In this study, the researcher will go through demographic segmentation which is focusing on Generation Y and psychographic segmentation which will divide Generation Y according to their specific character and last behaviouristic which will look into the occasion they have for dine in restaurant.

2. 2. 1. 1 Demographic segmentation

Kivela (1997) studied about types of restaurants and he found that factors such as dining occasion, age and income are the main variables that contribute to decision in choosing fine dining, theme, family or fast food restaurant. Apart, it is believed that segmentation especially demographic

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segmentation plays significant role to help the industry players as Shank and Nahhas (1994) found that in family dining restaurant, older and younger consumers have different preferences. One is more loyal than other and they as well have different habits. Similarly, a study conducted by Becker-Suttle, Weaver and Crawford-Welch (1994) found that in term of menu variety and food portion in a full-service restaurant, senior citizen has different expectation with the non-senior one. However, in contrary, Oh and Jeong(1996) believed that demographic variables are not enough to understand specific expectation. Similarly, Swinyard (1977) as well mentioned that demographic variables are the lowest between segmentations. These reasons drive the researcher to believe that it is important to segment market by demographic segmentation but it has to be narrowed down. Therefore, the researcher will go to more specific segmentation which is not only Generation Y in general but specific them by the psychographic as well as behaviouristic segmentation.

2. 2. 1. 2 Psychographic segmentation

Psychographic segmentation is help in developing consumers' profiles from psychology side based on lifestyles. (Hsu, Kang and Wolfe, 2002). It involves the evaluation of interest, activities and opinions. (Kotler, Bowen and Makens, 1998). Furthermore, psychographic segmentation is used in order to identify deeper consumers' psychology and to understand consumers' way of living. (Schewe and Calantone, 1978). For instance, Woodside and Pitts (1976) found that psychographic which include lifestyle variables are more useful and accurate than demographic. Same opinion mentioned by Abbey (1979) who found that lifestyle variables are more reliable and applicable

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rather than demographic. Moreover, Weaver et al. (1994) said that if psychographic research is carried out properly, it will have a great impact on promotional effort. Proper audience and media will be targeted by looking on their psychographic needs. Zins (1998) as well believed that psychographics segmentation is increasing because it will explain in various ways than demographic segmentation.

Based on the Swinyard and Struman (1986), there are three customer segments in restaurant industry which are family diners, romantics and entertainers. While Oh and Jeong (1996) stated that there are four different segments which are classic diners, convenience seekers, service seekers and indifferent diners. On the other hand, Bahn and Granzin (1985) found that there are health, gourmet, value and unconcerned segments that exist. The researchers stated that for those health concerned segments, absolutely they will not choose fast food restaurant as their main dining destination.

Using cluster analysis, Yuksel and Yuksel (2002) divided market into five which are value seekers, service seekers, adventurous food-seekers, atmosphere seekers and healthy-food seekers. The researchers conducted the study because they believed that demographic variables like age, gender and income are not enough to understand market expectations (Oh and Jeong, 1996). Crawford-Welch (1991, pp. 301) criticized segmenting by demographic and noted “ descriptive data, by their very nature, are of little analytical worth in that they are not capable of implying causality and are, in turn, poor predictors of behaviour”. Demographic has low power of describing market (Swinyard, 1977). Looking for these reasons, the researcher of this study decided to not only look for Generation Y but also

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narrowing the market to psychographic segmentation and behavioristic segmentation like what Yuksel and Yuksel (2002) had done in their study.

2. 2. 1. 3 Behaviouristic segmentation

To be more effective, previous researchers used consumers' buying behaviour as one of the segmentation variables (Oh and Jeong, 1996). Some believed that behaviour are better determinants in order to understand the market segments (Loker and Purdue, 1992). It has been mentioned that in order to predict behaviour, benefits has to be offered rather than looking only to the lifestyle, personality, age, gender or nationality. In restaurant cases, services act as attributes that can be called benefits (Bahn and Granzin, 1985). On the other hand, Boulding et al. (1993) mentioned about links between behaviour and service quality, customers help in word of mouth advertising. Customers do will to recommend one establishment if they get better service (Parasuraman, Zeithaml and Berry, 1994). However, service is not the only thing that sell by one establishment. Therefore, to understand better customers is a necessary.

2. 3 Generation Y

Generation Y is people who born between 1974 and 1994 (Neuborne and Kerwin, 1999 in Hanzaae and Aghasibeig, 2010) and they are children of Baby Boomers or Generation X (Herbig, Koehler and Day, 1993). Adults Generation Y are married, but younger one are still students. Industry players are now focusing on Generation Y as their biggest target market because this generation are large in size and they have potential spending power (Wolburg and Pokrywczynski, 2001) and therefore they are trying to <https://assignbuster.com/the-importance-of-market-segmentation/>

meet up the expectation of this people. Moreover, the reason why it is important to know deeply the expectation of Generation Y is because Generation Y is not easily influence by marketing therefore it needs more effort to target this generation (Bush, Martin and Bush, 2004).

It is obvious that age is a factor that makes different generation act differently however it is not the only factor. Teenagers nowadays are different compare to previous teenagers. Commonly, they have less financial commitments. They spend 70% of their income for food, travel and entertainment. They love to go for party, movie and listen to radio (Mark McCrindle, xxxx). He as well believed that people act different according to the age. However, he believed that it is the only reason as he mentioned that experiences play in the part. For instance, Generation X era was where AIDS, single parents, personal computer and multiculturalism took part, while Generation Y have internet, globalisation and environmentalism issues. {{Read : BB understanding gen Y}}

“ Generation Y is optimistic, energetic, technology driven, pragmatic, resilient, with high social awareness and open to and eager for new experiences” (Coyeman, 1998, p. 40). However, this group will be de-motivated if they are insulted especially regarding their intelligence, over-promised and over exposed (Coyeman, 1998). On the other hand, based on generational theory, different generations bring different values, beliefs, interests and expectations (Benckerdorff et al, 2010) and thus different strategy has to be used. Fields et al (2008) believed that Generation Y is more focused on brands, fun, friends and digital. Generation Y was born and raised during brands period, therefore they are used to it and have different <https://assignbuster.com/the-importance-of-market-segmentation/>

respond compare to other generations (Merrill, 1999). They are relaxed, confident, educated but impatient and self-focused. They are multitasked that greatly influence by friends and mates. Mark McCrindle (xxxx) also mentioned that Baby Boomers rely on data and facts in making decision while Generation Y rely more on peers. Generation Y live in community and therefore they rather make decision in group than individual. {{Read : BB understanding gen Y}}

Previous studies also mentioned that Generation Y are much more needy compare to other generations (Randall. S. H, 2010) and it is because Generation Y has been socialized into consuming earlier (TRU, 1999 in Bakewell and Mitchell, 2003). Furthermore, “ The purchasing power of adolescents in the market cannot be underestimated. Being customers of their own, adolescents have experienced how to react when services provided were not satisfactory.” (Hsu and Chiu, 2008, p. 244). These prove that Generation Y are unique and they have different demand and expectation with previous generation, thus to study deeper of what needed by Generation Y is important to help in improving business.

2. 4 Generation Y and dining

Generation Y spend more because of unusual purchasing power (Phelps, 1999) and they have more disposable income compare to previous generation (Tomkins, 1999 in Bakewell and Mitchell, 2003). They spend their income for entertainment, travel and food (McCrindle, 2002 in Hanzaee and Aghasibeig, 2010). This supported by a survey that conducted by the National Restaurant Association found that most of Generation Y’s income is

spent for outside food and restaurants (Brook, 2005). Another study by Auty (1992) also found that students who are in the group of Generation Y eat out for social occasions, do not really concern about others recommendation and money. These facts build curiosity of the researcher and therefore the researcher decided to conduct the study in order to find out the factors that considered by Generation Y while choosing restaurant for birthday celebration, hence, industry players especially restaurants may know what exactly to do and what promotional tools to develop. In fact, technology changes play important role in causing Generation Y become more materialistic compare to previous generation. (Bakewell and Mitchell, 2003), this may means Generation Y want technology while they are eating. Hence, it is believed that marketers are being challenged by this young generation because they keep seeking and exploring a new dining places and experience (Wishna, 2000).

2. 5. Factors influencing restaurant selection criteria

Consumers choose a restaurant based on several factors and knowing what factors that may drive the success of the company is very important in order to plan future strategy of the company (Geller, 1985).

2. 5. 1 Menu variety and choices

Food variety involves various different items in menu. Industry players keep developing menu in order to attract consumers because it had been found that menu variety is one of a crucial factors in creating good dining experience (Kivela et al, 1999). Some concern about healthy menu option and it actually gives great impact in customer perception of dining

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experience (Johns and Tyas, 1996). Supported by Kivela et al (1999) who mentioned that healthy food is one of the important factors in dining satisfaction. On the other hand, Auty (1992) mentioned that food type and food quality are the most important factors that determine the restaurant choice but when it comes to dining out for celebration or social night, atmosphere is the most important factors. Supported by Lewis (1981) who found that food quality, menu variety, price, atmosphere and convenience are the most important factors. To discuss deeply about menu, West and Olsen (1990) said that menu innovation is very important in order to stay competitive and the researchers also said that to maintain reputation and efficiency of operation are the important factors.

HA1 : Menu variety and choices have positive relation with restaurant selection criteria

2. 5. 2 Value for money

Marketing tools such as sales promotion including discounts and special offers act as tools that motivate consumers (Mill, 2007). This researcher as well believed that when consumers perceived the value got less than the price given, they will not be satisfied. Some of them that price to assume the quality of the restaurant (Muller and Woods, 1994). File : from mei

Different literature has different opinion, according to GeorgeCurasi, Bellenger and Danny (2003) discount are major factors that influence restaurant selection. Apart, another study by Mohsin, McInthos and Cave (2005) mentioned that general customers choose a restaurant in New Zealand due to value for money, offer variety and quality of food, own skilled

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and mannered staff and has well timed service. This study was conducted for general customers not Generation Y and this show a contrast with other studies that mentioned money is not the most important factor.

HA2 : Value for money has a positive relation with restaurant selection criteria

2. 5. 3 Ambience

Physical environment such as ambience, decoration and atmosphere have a great influence on the dining experience (Sloan, 2004) and behavioural intentions (Ryu and Jang, 2007). Ambience or known as atmosphere is an element that plays an important role to customers. It involves design, space and layout, textures and patterns and building style (Collins, 2010).

Mehrabian & Russell (1974) believed that environment affect feelings that can cause one to stay longer even remain. Lighting and music influence customer's senses (Baker & Cameron, 1996). Music is frequently used nowadays whether it is in restaurant or shopping center, Smith & Curnow (1966) found that shop with loud music indirectly chase customers. This study also has been study deeper by Milliman (1986), the researcher found that they are music volume and tempo that affect time and money spent by consumers.

Furthermore, Zopiatis and Pribic (2007) who did their study among students in Cyprus as well mentioned that atmosphere as one of most influencing concern. Supported by Jang & Namkung (2009) who found three main factors and one of them is atmosphere of the dining place itself. Obviously, the design of the dining place itself is very important to generate sales of

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restaurant. To support this, there was a study which found that design in a store has a significant effect on customer it influence the decision of customer to approach, explore even purchase (Mehrabian and Russell, 1974). Even if the customers perceive the environment as a pleasure, customer will spend more time and money for it (Donovan et al, 1994). Hence, it is obvious that design of ambience plays a very significant role in affecting customer's choices.

HA3 : Ambience has a positive relation with restaurant selection criteria

2. 5. 4 Peers

Decision makers tend to decide something with regard to consequences of their choices in future, however the future is uncertainty, hence it can be concluded that the decision is a process (March, 1997 in Maitlis and Ozcelik, 2004). Furthermore, during the decision process, one decision is closely related to others decision (Dewey and Bentley, 1949 in Langley, A et al., 1995). To relate to this study, in celebrating birthday, friends and parents may as well play role in deciding the venue, thus, one's decision is made by interference of others. This supported by the finding of GeorgeCurasi, Bellenger and Danny (2003) who found that recommendation from peers are one of the factors that lead customers in choosing restaurant. Although in contrary, Auty (1992) found that young generation does not really concern about others recommendation, but it is still a possibility that one individual's decision is built from others interference.

Furthermore, a recommendation from a friend influences significantly in decision to choose a restaurant (Sweeney et al., 1992). Mill (2007) believed

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that because recommendation from friends is not profitable and it different from advertising thus consumers will believe more and make decision in choosing the restaurant. According to Devine et al., (2003), social influences bring great impact to food choice, because they believed it shows attitude and habits. Apart, consumers heard the dining experience from friends and it help them to judge one restaurant better (Zeithaml and Bitner, 2003). Bailey and Tian (2002) did their study at Indian restaurant and they found that recommendations from friends greatly influence the decision.

HA4 : Peers has a positive relation with restaurant selection criteria

2. 5. 5 Service quality

Tucci and Talaga (2000) mentioned that service quality affect the customers most in choosing restaurant. Service quality includes staff and physical environment. Human resources are the main key to success. (Enz, 2004). Therefore to have good staff is to start with success. As what had been mentioned by Jang and Namkung (2009) one of the main factors is service quality, which in restaurant case means staff and their services. A staff attitude may harass one's satisfaction (Oliver, 1981). However, in contrary, Clark and Wood (1999) mentioned that tangible factors like food influence more than intangible factors such as friendliness of staff. But that study against by study of GeorgeCurasi, Bellenger and Danny (2003) who found that customers want personalized service which indirectly means they want good staff. In Cyprus, a study has been conducted by Zopiatis and Pribic (2007), the researchers also mentioned that staff's attitude and professionalism are the main factors that influence the student criteria in

choosing dining place. During the time period of the study conducted, students are the Generation Y, therefore those factors are being consider.

Moreover, length of waiting time on restaurant service is one factor that concern by customers too (Richarme & Colias, 2007) because service time is a very sensitive issue for customers (Christopher, 1999). This supported by Jang & Namkung (2009) who found service quality as attribute that influence customers in choosing restaurants. And more, GeorgeCurasi, Bellenger and Danny (2003) did mention about fast check-out as one of the factors that influencing the most.

HA5: Service has a postive relation with restaurant selection criteria

2. 5. 6 Food quality

Food is the fundamental of restaurant. There should be no doubt that food is one of the major factor that give impact on restaurant. Food should be fresh and tasty in order to maintain the quality and this is one of the factor that plays role in succeed of a restaurant. (Namkung and Jang, 2007). Even some studies had already focused on the food presentation, variety, healthy, taste, freshness and temperature. Kivela et al., (1999) focused on taste and they took it as the attribute in dining experience. It is believed that taste of food is very essential to customers (Cortese, 2003) and it gives impact to future behaviour (Kivela et al., 1999). Fu and Parks (2001) examined quality of food as one of the factors in choosing restaurant. MacLaurin and MacLaurin (2000) did the study on theme restaurants at Singapore and found food quality as one of the most important elements. Same goes to Clark and Wood (1998), they as well found food quality as the most influential factor in

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restaurant choices. Last but not least, Jang and Namkung (2009) found that product quality is important as one attribute that determine the choices of the restaurant's consumers. Even Soriano (2002) believed that this is one of the factors that can attract customers to return to the restaurant. However, apart from all those studies, Cullen (2004) added that the attributes will change depends on demographic variables, experience, mood and dining occasion.

File : food quality

HA6 : Food quality has a positive relation with restaurant selection criteria

2. 6 Different expectation for different types of restaurant

Many previous researchers did not concern about type of restaurant in conducting their study while it is believed that type of restaurant has significant influence on customers' perception and expectation (Kim and Moon, 2009). According to Lewis (1981), there are three types of restaurant, family, atmosphere and gourmet restaurants.

Different expectation will be bring by customers depends on the restaurant. For example, cleanliness as major factor has been mentioned by Knutson (2000) who did the study in fast food restaurant among Generation Y, followed by staff friendliness, price, service speed and consistency. The researcher as well found that atmosphere, promotional items, discount coupons and drive-through availability are the minor factors that affect the decision in choosing fast food restaurant. While in the study of Kivela (1997) mentioned that for fine dining restaurants, customers wish for good food

quality and friendliness of staff, but in casual dining restaurants, they preferred speed of service to be improved and value-for-money food. Noone et al (2007) have done their study and found that customers show unsatisfied when they are rushed in a fine dining restaurant rather than in casual dining restaurant. Other findings as well mentioned by Sulek & Hensley (2004), according to them, food quality is a must to full-service restaurants, while the most important factor for fast-food restaurants is waiting time (David & Vollmann, 1990). Kim, Lee and Yoo (2006) believed that staff performance plays very essential role in a luxury restaurant. In fact, by considering those factors, therefore this study is conducted in order to find out what factors actually play roles for Generation Y in choosing restaurant for their birthday celebration, as it has been mentioned that different expectation will be bring by customers depends on their needs and perception. But in this study, the researcher decides not to differentiate the respondents by different type of restaurant because there has no previous study conducted yet hence the researcher would like to find out in general which may lead to further details result that can be use for further study.

2. 7 Dining Occasion

Dining behaviour is depends on dining occasion. For instance, restaurant behaviours are lead from the occasion (Kivela, Inbakaran and Reece, 1999). According to Sweeney et al. (1992), there are two dining occasion exist which are dinner with a group of friends and dinner with a friend. While according to June and Smith (1987) four occasion do exist: a birthday celebration, a business lunch, an intimate dinner and a family dinner. Different occasion bring different level of factors. In this study, an occasion

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which is birthday celebration is the main concern. By the finding of the previous studies regarding level of importance brings to different occasion, thus it is obvious that different factors and value bring by consumers while they choose their restaurant for birthday celebration.

2. 8 Type of restaurant's consumers

In previous study of Yuksel and Yuksel (2002), they divided market using psychographic segmentation. The researchers used cluster analysis in order to analyze their data and they found that there are five different category of consumers.

2. 8. 1 Value seekers

The researchers suggest that this group put high priority food quality and hygiene while choosing a restaurant. Moreover, they usually do not take location, atmosphere and service quality as their main consideration.

HB1 : Value seekers are one type of restaurant consumers

2. 8. 2 Service seekers

In this group, there are people who looking for quality of service while dining, they does not consider food quality as their preference but the price of the food is very important for them.

HB2 : Service seekers are one type of restaurant consumers

2. 8. 3 Adventurous-Food seekers

They find that availability of various and interesting food is the most important factor for this group of people. They do not concern about the prices and atmosphere.

HB3 : Adventurous-Food seekers are one type of restaurant consumers

2. 8. 4 Atmosphere Seekers

In contrast to other groups, this group want everything while dining, not only the atmosphere but they as well concern about prices, availability of interesting food and the location of the restaurant itself.

HB4 : Atmosphere seekers are one type of restaurant consumers

2. 8. 5 Healthy-Food seekers

The researchers as well found that there are certain group of people who concern about the healthy and nutritious food while they dine in a restaurant. They take food quality and hygiene as the most important factors. It will be a plus point for them if they have smoking and non-smoking area in separation. While they have these high expectations, they do not mind to spend more money as well.

2. 9 Hypotheses and Conceptual Frameworks

Based on the literature review, six hypotheses appeared as factors that influence Generation Y in choosing restaurant and four other hypotheses appeared as type of restaurant consumers.

Show the conceptual framework here (framework, factors and type of consumers)

The conceptual framework provided has positive relation between the factors and Generation Y in choosing restaurant. However, during birthday celebration, different factors may be arised. Moreover, consumers are not homogeneous, different type of people are expecting different. Therefore, the conceptual gaps appeared.

In depth, six hypotheses that appear as factors that influence Generation Y in choosing restaurant are:

HA1 : Menu variety and choices have positive relation with restaurant selection criteria

HA2 : Value for money has a positive relation with restaurant selection criteria

HA3 : Ambience has a positive relation with restaurant selection criteria

HA4 : Peers has a positive relation with restaurant selection criteria

HA5 : Service has a postive relation with restaurant selection criteria

HA6 : Food quality has a positive relation with restaurant selection criteria

These six hypotheses have direct relation to Generation Y while choosing restaurant for dining but there has been no finding for birthday celebration before, hence this study helped in answering the gap. Yuksel and Yuksel (2002) by cluster analysis classified restaurant consumers into five groups,

however, in this study the researcher decided to take out a group which is Healthy food seekers as the study is for occasion dining. Therefore, the researcher to not include healthy food seekers as part of the study. The other four are:

HB1 : Value seekers are one type of restaurant consumers

HB2 : Service seekers are one type of restaurant consumer

HB3 : Adventurous-Food seekers are one type of restaurant consumers

HB4 : Atmosphere seekers are one type of restaurant consumers

This study designed in order to find out the relation of each type of consumers to the factors. For instance, value seekers may do not concern about atmosphere while service seekers may do not bother about food quality. While for the behaviouristic segmentation, it came from Question 8 and 9. The researcher will further analyze the answers obtained.