GLOBAL CONSUMER MARKET SEGMENTATION STRATEGY DECISIONS AND MANAGERIAL ASSESSMENT OF PERFORMANCE

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ABSTRACT

The decision to segment international markets should be based upon the ability of that strategy to contribute to firm performance. This paper presents a synthesis framework of international market segmentation strategy decision-making and a study examining specific relationships between segmentation decisions and managerial assessment of performance.

INTRODUCTION

International market segmentation is widely accepted as an effective strategy for enhancing marketing performance. While anecdotal information is common, little empirical work has been published that examines the performance implications of actually implementing a segmentation strategy in global markets. Establishing the link between segmentation decisions and effective strategy performance is important in order to weigh the benefits of segmentation against the cost.

The contribution of this research is to present a framework of international market segmentation strategy decision-making derived from the literature and to support the framework empirically. The study utilized a sample of North American based firms engaged in marketing to consumers internationally in order to empirically demonstrate a link between global market segmentation strategy decisions and management's assessment of the success of international segmentation strategy.

Theoretical Development

The development of international segmentation strategy has been alternately conceptualized as a linear process or as a portfolio of interrelated decisions (Wind and Douglas 1981). However, in each conceptualization at least two distinct decisions for defining international market segments are implicitly assumed. Wind and Douglas (1972) described the first decision as "macro" segmentation in which countries are classified and targeted based upon national market characteristics. The second decision is to analyze and sub-divide each qualifying target country by customer characteristics to form market segments (Wind and Douglas 1972).

Kale and Sudharshan (1987) also assumed the existence of multiple decisions. The first decision they presented was referred to as "country screening"-- selecting countries that qualify as potential markets for the firm. The second decision they presented was termed "microsegmentation" where consumers are classified based upon product predisposition and consumption patterns. Once segments are identified, they suggested that firms look for "strategically equivalent" segments across a range of countries that may be served with a common marketing mix. Kale and Sudharshan (1987), like Wind and Douglas (1972), assumed a linear or hierarchical order to the decision steps.

Ter Hofstede, Steenkamp and Wedel (1999) empirically verified that a segmentation model can integrate both country factors and consumer characteristics to better form segments that share consumption patterns versus traditional models employing country factors alone. However, the study stopped short of addressing the nature of segmentation decision-making or the contribution of segmentation decision criteria to performance.

A review of the extant literature (e.g., Helsen, Jedidi and DeSarbo 1993; Jain 1993; Jaffe 1974; Kale 1995; Kale and Sudharshan 1987; Wind and Douglas 1972) suggests that country selection based upon the attractiveness of the country or countries is appropriate as the first step in the synthesis framework utilized in this study. Consequently, the first hypothesis examines the relationship between country attractiveness and segmentation strategy performance.

H_1: The degree to which a firm utilizes specific country attractiveness factors in its international segmentation decision-making is positively related to the degree of successful performance of the firm's segmentation strategy.

Likewise, within-country consumer selection is being adopted as the second step in the synthesis framework based upon the literature (Huszagh, Fox & Day 1986; Samli & Hill 1998; Smit & Neijens 2000; Verhage, Dahringer and Cundiff 1989). The distinction between country selection factors and consumer characteristics may seem arbitrary since country factors might actually be related to the characteristics of consumers within the country. The operational distinction is that while country factors might be common to all consumers within the country, within-country segment bases allow distinctions among consumers within a country. For example, the general level of educational attainment across the society might be a factor used to identify target countries, and the individual consumer's level of education might be a demographic base for sub-dividing the market into market segments. The second hypothesis examines the relationship between country attractiveness and segmentation strategy performance.

H_2: The degree to which a firm utilizes specific within-country segment bases in its international segmentation decision-making is positively related to the degree of successful performance of the firm's segmentation strategy.

The third decision in the synthesis framework is to determine the scale of segment management. A number of authors have taken up the issue of how segments might be managed and have suggested that the scale of segment management may be country specific, based upon clusters of countries with similar characteristics, or based upon a global "intermarket" customer segment which transcends national boundaries (Daniels 1987; Hassan and Katsanis 1991; Helsen, Jedidi and DeSarbo 1993; Nachum 1994). A firm's international marketing may consist of a mix of strategies with each strategy based upon an appropriate product/customer combination (Douglas and Wind 1987). The third hypothesis examines the relationship between country attractiveness and segmentation strategy performance.

H_3: The degree to which a firm utilizes specific scale of segment management in its international segmentation decision-making is positively related to the degree of successful performance of the firm's segmentation strategy.

The synthesis framework is readily operational which allows for examining the veracity of the decision steps and the important question of their contribution to performance. However, the key connection between international segmentation and performance is the degree to which the firm meets its own objectives for creating valuable relationships with consumers -- not just financial performance but performance in serving the firm's customers. Recent studies seeking to draw a specific link between the scale of segment management and performance have reached conflicting results (Özsomer and Prussia 2000). Studies have found that standardization of products to global or regional market segments is positively related to performance (Kotabe and Omura 1989, Johansson and Yip 1994) while others failed to find any relationship between performance and scale of segmentation (Samiee and Roth 1992). Cavusgil and Zou (1994) found that the segment management scale sometimes contributes to performance for very inexperienced and very experienced firms but not universally. The link between scale of segmentation and performance remains unresolved (Özsomer and Prussia 2000, 27).

RESEARCH DESIGN

The study utilized a convenience sample of segmentation decision makers in firms marketing to consumers internationally. The study used a key informant methodology where respondents were independently screened as to their qualification to respond. Key informants are not selected to be statistically representative but are chosen because they possess unique knowledge on the topic of interest (Kumar, Stern and Anderson 1993). Utilizing key informants in strategy research is appropriate where the likelihood of randomly locating respondents with in-depth knowledge is low (Seidler 1974).

The data gathering process consisted of initial mail or e-mail contact asking for participation in the study followed by delivery of the survey instrument. As an incentive to participate, the respondents were offered the opportunity to receive a summary report of the study's findings. In addition, a charitable contribution for each completed questionnaire was made to the respondent's choice of three charitable organizations.

ANALYSIS AND RESULTS

Having successfully identified factors for both country attractiveness and within-country segment bases, indices of those factors are used as independent variables to address hypotheses 1 and 2 and individual 'degree of utilization of scale of segment management' served as the independent variables to test hypothesis 3. Averaging the values of the underlying items that loaded upon a factor creates a factor index. For example, the within-country segment bases items gender, age, lifestyle, disposable income, and social class were averaged to create a factor index for the factor 'demographics.' The regression model presented was constructed using factor indices; however, when the model was run using factor scores in place of factor indices the same practical results were reached.

The regression model utilized 'success of the firm's segmentation strategy' performance measure as the dependent variable and the following independent variables: country demographics; economic development; legal, political and economic stability; technology development; demographics; market potential; culture; socio-economic level; loyalty; product acceptance; manage each country as a separate market; manage markets on a multi-local basis; and, manage markets on a single world-wide basis. The control variables were included in the regression model to assess their impact upon the relationships between the principle variables in the analysis. None of the control variables yielded significant results in the current model so they were not included in the model for analysis. The F-test for the model is significant at p=0.088 and R^2 is 0.338. The power for the model is 0.971.

The t-tests for the independent variables did not demonstrate a statistically significant relationship between any of the derived factor indices representing 'degree of utilization of country attractiveness factors' and 'success of the firm's segmentation strategy' performance measure. Therefore, H_1 is not supported.

Among the within-country factors, the t-tests indicate that there is a statistically significant relationship between 'market potential' (factor 2) and performance (p = 0.109). There is a statistically significant relationship between 'culture' (factor 3) and performance (p = 0.051). In addition, there is a statistically significant relationship between 'socio-economic level' (factor 4) and performance (p = 0.099). Finding more than one within-country segment bases to be significantly related to performance, it is possible to interpret their differential impact. The factor 'market potential' accounts for 13.37% of the variance explained in the model, 'culture' accounts for 24.04%, and socio-economic level accounts for 14.00%. Based upon these findings, H_2 is supported.

Among the three levels of segment management, the t-tests demonstrate that one of the scale of segment management variables is significantly related to performance. 'Manage each country as a separate market' is significant at p = 0.075. Because there was only a single scale of segment management variable found to be significant, there was no opportunity to examine the betas to differentiate their impact upon performance. 'Manage each country as a separate market' accounts for 14.75% of the variation identified in the regression model. Based upon the findings, H_3 is supported.

DISCUSSION OF FINDINGS

This research study examined the influence of global segmentation variables on segmentation strategy performance. The data supports the hypothesized synthesis framework as reflecting actual practice. In the current study, 93.5% of the key informants report using country attractiveness, 100% of the key informants report using assessment of within-country segment bases, and 93.5% report using scale of segment management as a decision point in their organization's international segmentation strategy decisions.

Support for Country Attractiveness Factors

No significant relationship was found between any element of country attractiveness and segmentation strategy performance. There are four potential explanations for the lack of a significant relationship between country attractiveness as a decision element in international segmentation strategy and segmentation strategy performance. One possible explanation is that the relationship does exist but is beyond the ability of the current research design or sample to detect. The second possible explanation is that trade liberalization and standardization of world markets have caused consumers' needs to grow more homogenized such that choice of country is no longer critical to performance in international marketing. However, this explanation seems to run counter to the literature that asserts firms will only invest time in a segmentation decision to the extent that it matters and will add value. The third possible explanation is that all of the firms represented in the current study are making effective country selection decisions and therefore leaving little variability in performance. However, 43% of respondents reported on projects that were not successful. Therefore, not all of the country selection decisions were effective. The fourth and most likely explanation for the lack of a significant relationship between country attractiveness as a decision element in international segmentation and segmentation strategy performance is that the decision is being made based upon non-marketing or at least non-segmentation considerations.

Support for Within-Country Segment Bases

The second hypothesis examines whether specific within-country segment bases are positively related to the performance of the firm's segmentation strategy. The factor analysis resulted in six factors of which *market potential, culture,* and *socio-economic level* proved to be significantly related to segmentation strategy performance. Although *market potential, culture,* and *socio-economic level* all contribute to performance, *culture* clearly has a greater impact. *Market potential, culture,* and *socio-economic level* account for 13.37%, 24.04%, and 14.0% of the explained variation in performance relative to the other predictors. Additional factors identified but not significantly related to segmentation strategy performance included: *demographics, loyalty*, and *product acceptance*.

The implications of this finding are threefold. First, there is strong evidence that a firm can increase performance in the markets it serves by utilizing within-country segmentation bases as a decision element in its international segmentation strategy. Focusing managerial attention on the performance impacting elements of within-country segment bases will allow the firm to target appropriate consumer segments and limit resources expended on less appropriate consumer segments. Second, firms wishing to understand the variable nature of market performance in international consumer marketing might look to these findings regarding within-country segment bases to serve as a cross-industry benchmark for adjusting their use of within-country segmentation techniques to best analyze and eventually maximize market performance in a host country. Third, understanding the performance of utilizing within-country segment bases in segmentation strategy development will allow the firm to make more effective decisions regarding which segments to serve within a host country based upon its own performance objectives. Not all firms will be equally effective at serving all segments within a host country.

Support for Scale of Segment Management

The third hypothesis examines whether the utilization of specific scale of segment management (e.g., multi-local, regional, and intermarket/global) will be positively related to the performance of the firm's segmentation strategy and whether scale of segment management will differentially impact performance. No relationship was identified between two of the scales of segment management (*manage each country on a multi-country regional basis* and *manage markets on a single world-wide basis*) and segmentation strategy performance. However, the data supports this hypothesis by identifying a direct significant relationship between utilizing the item *manage each country as a separate market* and segmentation strategy performance. This item accounts for 14.75% of the variation explained.

The implications of this finding are twofold. First, the finding supports a large and growing body of literature which argues that local control of segment management allows for greater attention to the particular needs of within-country consumers and is therefore more effective than regional or global marketing (Kotabe and Omura 1989, Johansson and Yip 1994, Cavusgil and Zou 1994). This finding may help resolve the issue of linking scale of segment management to performance where prior studies have found conflicting results (Özsomer and Prussia 2000). Second, the data clearly suggests that there is a relationship between a multi-local scale of segment management and successful segmentation strategy performance.

These findings should not be interrupted as a definitive statement that multi-local control is necessarily a better strategy for all firms in all circumstances. The findings indicate that using multi-local control does positively impact segmentation strategy performance; however, the firm will need to balance effective segmentation against the cost of maintaining duplicate management systems in each country. The opportunity to have more effective segmentation strategy performance must be weighed against other priorities to determine whether the gains in segmentation strategy performance are cost-effective.

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