

Chapter 12

Strategic Market Segmentation in the Dynamic Emerging Markets



Mallikarjuna Rao Veluru

Abstract The whole effort of marketing, explained in CCDVTP mantra (London Business Forum 2008) by Philip Kotler, is directed at a target market to achieve profit. It is like launching a spacecraft. The space mission becomes meaningless in the absence of a launch pad; similarly, the marketing mission has no meaning in the absence of the launch pad of market segmentation. Market segmentation in emerging markets is the challenge of erecting a launch pad on terrain with dynamic contours, overcome by only using proper strategy. To evolve a strategy for segmenting the emerging markets, it is imperative to analyze what forces operate and what issues dominate in the gameplay. This chapter sees through the strategy lens, the issues, that challenge the business acumen of a successful enterprise, to segment an emerging market, and attempts to recommend appropriate methods for a profitable segmentation.

Introduction

This chapter traces the evolution of market segmentation over the time into a function of strategic importance. The chapter then discusses the market segmentation in the context of the developed country, taking cognizance of the political, economic, social, technological, legal, and ecological environment prevailing there and its impact on *strategic market segmentation*. The challenge of market segmentation in the context of dynamic emerging market is then studied with respect to the same PESTLE environment, with an attempt to compare and contrast with the developed country scenario, along with its impact on *strategic market segmentation*. An attempt then is made to find some solution for effective market segmentation in dynamic emerging market, based on the real emerging market environment. Market segmentation in an emerging market is strategic because of

M. R. Veluru (✉)
State Bank of India, Hyderabad, India
e-mail: mallikarjuna8@iimk.edu.in; vmallikarjun79@gmail.com

uncertainty, instability, and volatility of environment and presence of institutional voids, and hence, the present chapter assumes paramount importance, since the success of any business rests on a single pivot of the right market segmentation, targeting and positioning of offerings, failing which businesses are bound to doom.

Strategic Market Segmentation

Antecedents

Industrial revolution in Europe heralded a new era in progressive evolution of a market. Previously, the goods/products that were in use were hand-made and primarily satisfied the needs of the people world over. There was no separate identity for 'marketing' activity since it was not necessary. The rise of the machines led to the mechanization of production, which necessitated thought in the direction of marketing.

The orientation toward the marketplace¹ by the firms progressed as follows.

Production concept era where market segmentation was not much relevant, *product concept* era in which market segmentation based on the customer needs that are satisfied by the product, *selling concept* era in which market segmentation aimed at the expansion of the market by aggressive selling efforts, *marketing concept* era of mid-1950s in which market segmentation matured into a structured mechanism, and discrete segments were identified to offer value through products either to one or many segments simultaneously and *holistic marketing concept* era where segmentation underwent a change of predefined framework. Segmentation varies widely depending on the marketing activity/program in the question.

Business Aspect

Market segmentation has been the primary tool in penetration and expansion of the market in a scientific manner. Segmentation aided in reaching out to the masses, creation of value to the customers, customer-centric product creation, communication of brand value to the customers, and enhancement of business potential of the organizations.

¹Kotler and Keller (2012).

Marketing Aspect

Market segmentation cleared the mist of the markets and showed the way for a focused and structured approach to market products and services by organizations. This was responsible for effective targeting and positioning of the products and services which improved the performance of the organizations.

Previous Research

According to business historian Richard S. Tedlow, the evolution of market segmentation² happened in *four* stages, namely *fragmentation, unification/mass marketing, segmentation, and hyper-segmentation*.

Contemporary segmentation became a brand-driven process due to

- Availability of demographic, purchasing data, advertising/distribution channels for groups and rarely for individuals.
- Tactical approach of the brand marketers on segmentation.

Market Segmentation³

Market segmentation varies depending on the product offerings of the enterprise, whether they are for *consumer markets* or *business markets*. Let us look at the characteristics of segmentation of both these markets.

Consumer Market Segmentation

Two schools of thought have been popular in the consumer market segmentation research.

One suggests using the following three descriptive characteristics for segmentation.

- Geographic segmentation based on geographic variations.
- Demographic segmentation based on demographic variations.
- Psychographic segmentation based on variations simultaneously produced by psychology and demographics of the consumers.

²Market Segmentation (2003).

³Kotler and Keller (2012).

The other school suggests behavioral segmentation based on consumer behavior aspects as follows.

Segmentation is structured on the behavioral bases like

- Needs and benefits
- Decision roles
- User and usage
 - Occasions
 - User status
 - Usage rate
 - Buyer-readiness stage
 - Loyalty status
 - Attitude.

Business Market Segmentation

Business market segmentation employs the following variables

- Demographic
- Operating variables
- Purchasing approaches
- Situational factors
- Personal characteristics of the buyer

Of these, the demographic variables are the most important, followed by the operating variables, down to the personal characteristics of the buyer.

Justification of a Practical Approach for Strategic Market Segmentation

As previously mentioned, the entire success of marketing program rests on appropriate market segmentation and targeting. Segmentation hence got elevated to strategic space. Strategic market segmentation thus replaced the erstwhile market segmentation.

Potential Impact of Market Segmentation on Formulating, Implementing, and Sustaining Strategic Marketing Issues

Market segmentation groups customers with a similar set of needs and wants. Identifying meaningful number and nature of market segments and targeting one or

more of them will be of paramount strategic importance since any miscalculation in segmentation will be detrimental to entire business.

Market Segmentation in the Context of Developed Country

Developed countries are those which pioneered industrial revolution and became fertile grounds of capitalism. Rapid industrialization and maturity of economy eventually resulted in these nations. They made breakthrough innovations and advances in mechanization of agriculture, defense, medicine, science, engineering, manufacturing, technology, transport, telecommunications, space research, software, and other related fields which are building blocks of the economy. A gradual shift from agrarian to industrial to services nature of economy is evidenced in them. Today, their economies are predominantly a mixture of industrial and services components.

Another common feature among some of the developed countries is that they were colonial till the middle of twentieth century, for example, Great Britain, France, Portugal, Spain, and Netherlands. Their colonies happened to be cheap source of raw materials and also immediate markets for their industries for centuries, and this is the primary reason for their industrial development.

Let us now examine the environmental factors for an industry/enterprise in a developed country that contributed for flourishing of the business and the economy and how strategic market segmentation was impacted due to these developments.

Political

Political environment was marked by monarchies, dictatorships and aristocracies, strong military formation, frequent wars for territories which were flourishing centers of trade and business, sources of rich natural resources and areas of strategic prominence, search for outside opportunities due to limited domestic resources, establishment of colonies by exploitation of weak political situations in the kingdoms with which trade contacts existed.

Economic

Usage of more land for industrialization due to less population, establishment of more and more factories due to industrialization, demand for expanded markets, lucrative colonies which were sources of cheap raw material and dumping yards of finished products, resulting in accumulation of huge capital and strengthening of the home economies, marked the economic environment.

Social

Religion was the center of social structure, which controlled the political, economic, and legal systems. The society was striated into the church class, the ruling class, the aristocrats (official machinery), and the ruled class. Challenge of religion by science, rise of Protestants, the spirit of innovation, inventions and discoveries, and rapid industrialization triggered social transformation. Originally unskilled and agrarian, the labor, gradually were trained to the demands of industrialization. Society was almost homogenous, with the only differentiation in the social rank of the people.

Technological

Fertile technological environment existed which resulted in inventions like steam engine, railroad network, shipping, and printing press which advanced manufacturing, transport, and communications. Strong economies with huge pool of capital encouraged more investment and technological advancement. Strong political will and competition among countries to gain military supremacy started rat race for defense and telecommunication innovations. Weapons were produced in so huge quantities creating defense markets as well.

Legal

Since church was all powerful, legal system rested on religious practices. Codification of law later evolved. Industrial revolution created labor force, which eventually culminated in labor legislation.

Ecological

- The lure of industrial supremacy undermined the ecological backlashes. Unhealthy competition in weapon production ignored the environmental and ecosystem damage caused by nuclear weapons.
- The world has not yet healed from the devastation of two world wars. The developed countries have pushed the world to a zone far from repair.

Impact on Strategic Market Segmentation

- Political environment influenced *business market segmentation* due to rapid industrialization in the strategic sectors like defense, transport, telecommunications, and infrastructure. *Geographic segmentation* in retail space gained importance.
- Economic environment influenced *geographic* and *demographic* segmentations in both business and retail markets.
- Social environment influenced the *demographic* and *psychographic* segmentation, predominantly in retail markets.
- Technological environment influenced the *psychographic* and *behavioral* segmentation in retail markets.
- Legal environment influenced *demographic* segmentation both in business and retail markets.
- Ecological environment influenced *behavioral* segmentation in retail market and *situational variables* in business markets.

Market Segmentation in the Context of Emerging Market

The environmental factors in the emerging market vis-à-vis a developed country can be analyzed as follows (Table 12.1).

Impact on Strategic Market Segmentation

The environment in which firms operate in emerging market is fundamentally and drastically different from the developed countries, as observed above. It is therefore imprudent to use the market segmentation methodology that worked for developed countries, to the emerging markets as well. Joint ventures of one foreign and one local firm would be the most appropriate strategy for business for the efficient management of local (to the emerging market) parameters. This would be a win-win situation for both the local and foreign firms.

Discussion

The above information on the environment in emerging markets leads to the following analysis on the market segmentation in emerging markets.

Table 12.1 Environmental factors influencing market segmentation [Prepared by Author]

S. no	Environment	Developed country	Emerging market
1	Political	<ul style="list-style-type: none"> ✓ Monarchies, dictatorships, and aristocracies ✓ Strong military and frequent wars for profitable and strategic territories ✓ Colony formation by exploitation of weak political situations in kingdoms with which trade contacts existed 	<ul style="list-style-type: none"> ✓ Young governments mostly formed on independence from colonial rule ✓ Rich, powerful, and selfish get power at the expense of poor, powerless, and illiterate ✓ Greed for power breeds innumerable political groups and unstable governments ✓ Misuse of abundant national resources due to selfish rulers ✓ Almost all the nations struggling yet to be looked at as respectable sovereign entities by international fora like UNO, IMF, WB, and WTO ✓ Apparently independent, but fear framing any national policy contrary to interests of developed countries, which wield enormous influence on international fora like UNO, IMF, WB, and WTO
2	Economic	<ul style="list-style-type: none"> ✓ Use of more land for industrialization due to less population ✓ Establishment of many factories due to industrialization ✓ Demand for expanded markets led to colonialization, with the colonies being sources of cheap raw material and dumping yards of finished products ✓ Accumulation of huge capital and strengthening of home economies due to colonialization 	<ul style="list-style-type: none"> ✓ Uneconomic use of rich natural resources due to huge population ✓ Economies rest on agriculture from natural rainfall due to deficiency in other irrigation methods ✓ Domestic consumption exceeds exports due to large population ✓ Colonial enterprises continue to lead in competition with local firms, as the latter could not have time and resources, after the independence, to take on the former ✓ The governments are also not in a position to frame protectionist policies for local firms, for the fear of sanctions by developed nations ✓ Local industry is unable to meet the expectations of very highly skilled and talented human resources from premier institutes, and they either end up serving enterprises or as research scholars achieving breakthrough innovations (in developed countries) ✓ Economies are growing just because they are serving as sources of cheap and large labor force and not due to actual development either in the agriculture, industry, or infrastructure ✓ Decisions by unprofessional, inefficient, and selfish leadership lead to institutional voids

(continued)

Table 12.1 (continued)

S. no	Environment	Developed country	Emerging market
3	Social	<ul style="list-style-type: none"> ✓ Religion at the center of social structure, controlling political, economic, and legal systems ✓ Social stratification into the church class, the ruling class, the aristocrats (official machinery), and the ruled class ✓ Challenge of religion by science, rise of Protestants, the spirit of innovation, inventions and discoveries, and rapid industrialization triggered social transformation ✓ Almost homogenous society with people differentiated only with their social rank 	<ul style="list-style-type: none"> ✓ Innumerable social stratifications based on religion, region, culture, caste, language, dialect, and so on ✓ Huge variation in the customs, traditions, and practices of the people ✓ Family is at the center of society ✓ Sheep herd behavior is visible with blind followership of political leader/regional or religious or caste head/celebrity ✓ Majority are still far from satisfying their basic needs of food, water, shelter and health, equity, and justice which are distant dreams for many ✓ People are obsessed by the 'foreign' brands
4	Technological	<ul style="list-style-type: none"> ✓ Fertile technological environment marked with inventions like steam engine, railroad network, shipping, and printing press ✓ Inventions advanced manufacturing, transport, and communications ✓ Strong economies with huge pool of capital encouraged more investment and technological advancement 	<ul style="list-style-type: none"> ✓ Voracious consumers of the international technological advancements and people are the fastest adapters to new technologies ✓ Struggle to give any technological breakthrough innovation to the world, due to scanty resources (both financial and others) even to the premier research institutes ✓ They have to struggle a lot and generally fail to secure an international patent for their breakthrough innovations, due to the political and economic factors discussed above
5	Legal	<ul style="list-style-type: none"> ✓ Church was all powerful, and legal system rested on religious practices ✓ Codification of law later evolved ✓ Industrial revolution created labor force, which eventually resulted in labor legislation 	<ul style="list-style-type: none"> ✓ Legal system is the generally the old and unchanged colonial system, though currently obsolete ✓ Complicated legal procedures are evident
6	Ecological	<ul style="list-style-type: none"> ✓ The lure of industrial supremacy undermined the ecological backlashes ✓ Unhealthy competition in weapon production ignored the environmental and ecosystem damage caused by nuclear weapons ✓ The world has not yet healed from the devastation of two world wars. The developed countries have pushed the world to a zone far from repair 	<ul style="list-style-type: none"> ✓ Greed of people and corruption of officials inflicted decades of damage on the ecology ✓ Governments woke up late and are taking baby steps toward salvaging mother nature

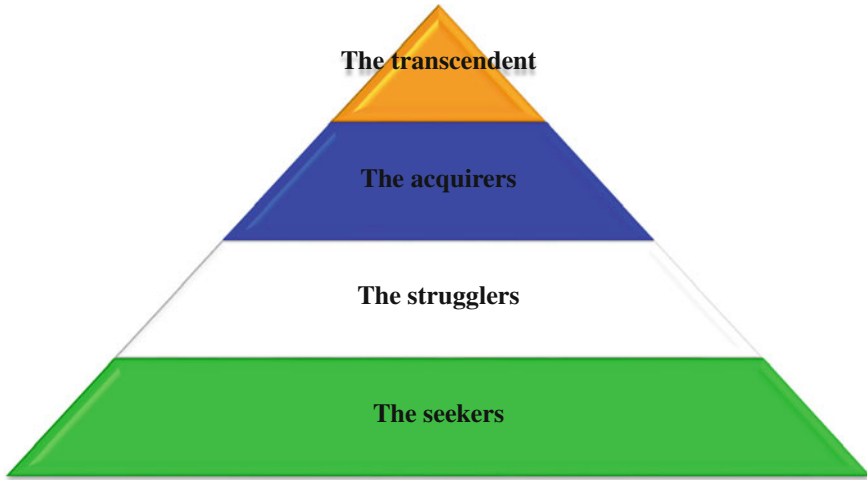


Fig. 12.1 Emerging market pyramid (EMP). [Prepared by Author]

The whole population (consumers and firms) of an emerging market can be divided into four segments of the people, which can be conveniently termed as emerging market pyramid (EMP), depicted as follows (Fig. 12.1).

Let us examine the pyramid as follows, from both the *business market* and *consumer market* perspectives (Table 12.2).

From the above analysis, it can be observed that the segments fare in *five segmentation criteria* and Michael Porter’s⁴ *five forces or parameters* for segment attractiveness as follows.

<i>Market segmentation criteria—segment rating</i>				
Criterion	The seekers	The strugglers	The acquirers	The transcendent
Measurable		✓	✓	✓
Substantial		✓	✓	
Accessible		✓	✓	✓
Differentiable		✓	✓	
Actionable		✓	✓	

(continued)

⁴Porter (1980).

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<i>Segment attractiveness parameters—segment rating</i>				
Parameter	The seekers	The strugglers	The acquirers	The transcendent
Threat of rivalry			✓	
Threat of potential entrants		✓	✓	
Threat of substitutes			✓	
Threat of buyers' bargaining power		✓		
Threat of suppliers' bargaining power			✓	

Table 12.2 Analysis of emerging market pyramid (EMP) [Prepared by Author]

Market segment	Perspective	
	Business market	Consumer market
The seekers	<ul style="list-style-type: none"> ✓ Firms with deficient resources ✓ Very quick mortality due to unprofessional and inexperienced management of business environment ✓ Largest population 	<ul style="list-style-type: none"> ✓ People with deficient resources ✓ Live in abject poverty ✓ Try to gather sufficient resources entire life ✓ Largest population
The strugglers	<ul style="list-style-type: none"> ✓ Firms with some deficient resources ✓ Seek impossible targets with reference to available resources ✓ Tend to fail after initial foothold ✓ Less population than 'the seekers' 	<ul style="list-style-type: none"> ✓ People with some deficient resources ✓ Often tempted to satisfy wants, though resources not even sufficient to meet the basic needs, getting into vicious debt trap ✓ Excessively influenced by advertisements ✓ The typical 'middle class' or the 'working class' ✓ Less population than 'the seekers'
The acquirers	<ul style="list-style-type: none"> ✓ Firms with sufficient resources ✓ Progressive growth is witnessed due to strategic moves ✓ Prudent investments, capital accumulation, near monopoly performance, growth both by organic and acquisition mode ✓ Less population than 'the strugglers' 	<ul style="list-style-type: none"> ✓ Powerful people with affluent resources ✓ These would be in a position to acquire any expensive offering, especially as status enhancer ✓ Rich in educational and financial resources ✓ Highly influenced by advertisements, brand obsessed ✓ Typical 'upper middle class' and 'high class' people ✓ Less population than 'the strugglers'
The transcendent	<ul style="list-style-type: none"> ✓ 'The acquirers' seeking no more expansion, instead indulging in corporate social responsibility ✓ Least population; may well be negligible in number 	<ul style="list-style-type: none"> ✓ Affluent, yet wish to lead simple life ✓ Not influenced by the 'status' factor in purchasing offerings. Very comfortable to use any cheapest product if basically is of adequate quality and meets the needs ✓ Not influenced by advertisements ✓ Often indulge in philanthropy ✓ Least in population

Recommendation

On the basis of foregoing analysis and discussion, it is evident that targeting ‘*the strugglers*’ and ‘*the acquirers*’ segments would be a prudential strategic move for gaining competitive edge. Following are few recommendations for both of these segments.

For ‘the Strugglers’ Segment

1. Since the segment is very highly price elastic and very highly brand loyal, only value for money and highly durable offerings suit this segment.
2. Population of this segment generally would be facing hardships. So, if offerings which ‘make life easy’ are provided, they would imbibe them for life.
3. This segment would be the long-term cash cow if the offering is positioned securely in the segment.
4. If firms can go extra mile and take initiatives to enhance buying power of this segment, as a part of corporate social responsibility, part of the segment gets converted to ‘*the acquirers*’ which bolsters the profitability of offerings in ‘*the acquirers*’ segment.

For ‘the Acquirers’ Segment

1. Offerings for this segment should enhance the social status, personality of the user and, at the same time, provide maximum luxury/performance.
2. Often, niches in this segment would be more practical and profitable.
3. Branding should be given top most priority since only brands and not products get sold in this segment.

If Both Segments Are Targeted

1. Firms should be extremely careful not to provide same brand if they cater to both the segments. The brand is bound to fail.
2. If both segments are decided to be targeted,
 - Appropriate differences in the offerings should be built in.
 - Marketing, branding, advertising should be taken up in such a way that offerings to these segments appear to be from two separate firms.

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