The Romance of Marketing History

The Recent Evolution of Market Segmentation Concepts and Thoughts Primarily By Marketing Academics

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Segmentation of markets has been a key concept in marketing research for almost 50 years. Although academicians and practitioners employ different approaches to segmentation (behavior-oriented and decision-oriented approach and competitor approach respectively), the concept has been a means of advancing both fields. This paper investigates the evolution of market segmentation research from its origin in economic theory to the current period. With the exponential growth of technological advances and the blurring of the borders that divide societies, the contribution of market segmentation research to our discipline is brought into questions. It is proposed that building on the work of our predecessors, modifying the epistemology of segmentation research, and integrating frameworks from other disciplines will serve to establish the role of segmentation in the future of marketing.

Market segmentation is an inevitable and fundamental aspect of economics. There have always been users and nonusers, light and heavy users, frequent and occasional users, and satisfied and dissatisfied users. Whether they were called segments or not, they were and remain, segments - subsets of a larger or total population. Segmentation that exists in the marketplace is not there for the convenience of the marketer. At times people will group themselves, but the segments they form are abstractions, which depend on how you look at them and what you want for them (Levy 1978).

Many marketing scholars (i.e. Smith 1982; Wedel and Kamakura 2000) attributed the origin of the concept of market segmentation to the work of two economists, Edward H. Chamberlin and Joan Robinson. Chamberlin and Robinson’s research of monopolistic competition and the theory of imperfect competition were grounded in the notion of heterogeneous markets. It is from this concept that Wendell R. Smith (1956) first introduced market segmentation in the marketing literature, and since then it has become a central concept for both marketing theory and practice (Weinstein 1987; Wedel and Kamakura 2000).

Many marketing scholars and practitioners have proposed different definitions of market segmentation. However, the definitions of Smith (1956) and Kotler (1972) are representative of the academic approach to market segmentation. Academicians take a consumer approach to segmentation. Smith (1956, 6) defined segments as directly derived from the heterogeneity of customer wants proposing that “market segmentation involves viewing a heterogeneous market as a number of smaller homogeneous markets, in response to differing preferences, attributable to the desires of consumers for more precise satisfaction of their varying wants.” Kotler’s (1972, 166) definition was conceptually consistent with Smith’s definition, which he proposes as “the subdivision of a market into homogeneous subsets of customers, where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix.”

Practitioners approached market segmentation from a profit maximization paradigm. Garth Hallberg, Worldwide Director of Differential Marketing at Ogilvy & Mather, argued that “the way consumers truly differ is in the inherent profit opportunity they present to the marketers – their profit differential” (Hallberg 1995, 7). The purpose of this paper is to examine the evolution of market segmentation: its origin, methodological advances, identification of criteria variables, contributions of academic researchers and practitioners, and the future of segmentation in the information age. To achieve this goal, the origin of market segmentation and an overview of the evolution of market segmentation are discussed. Next, temporal progression of academic research and practitioner activities is presented in four sections: The Early Years (1950s and 1960s); Period of Refinement (1970s); The Boom Period (1980s); Period of Expansion – Breadth and Depth (1990s to the Present). Finally, a synopsis of the four periods is presented followed by a discussion of the future of market segmentation.

ORIGIN OF MARKET SEGMENTATION

Although many scholars brought into play the works of Edward H. Chamberlin (theory of monopolistic competition) and Joan Robinson (economics of imperfect competition) as the foundation from which market segmentation was conceived, the roots of segmentation could be traced to the work of A. C. Pigou (1904). Pigou (1904) speaks about consumers’ surplus. Simply put, consumers’ surplus is the difference between what a consumer is willing to pay for a good and what the
consumer actually pays for that good. Consumers’ surplus arises because consumers have different reference prices, the price they are willing to pay. Consumers’ surplus creates different demand curves, hence, heterogeneous markets. The work of Pigou (1904) and other economists (i.e., Piero Sraffa and Harold Hotelling) of the early 1900s, although founded on neo-classical tradition, challenged the emphasis on competitive characters of the price system (White 1936). It was from this new knowledge that the work of Chamberlin and Robinson was grounded.

Robinson (1933) proposed that market segmentation was the key to successful application of product portfolio strategy. Robinson’s (1933) work was aimed at the relationship between price discrimination and heterogeneous markets. Significant work in the field of imperfect competition took place in the 1930s (i.e. Chamberlin 1937, Schumpeter et al. 1934, White 1936). This research by economists in the domain of demand theory of microeconomics influences the marketing discipline (Schwartz 1965).

The introduction of segmentation by Smith (1956) established the normative market segmentation theory. Smith (1956) was concerned with product differentiation as a tool for efficient allocation of resources. Like Smith (1956), the early scholars of marketing thought, such as Wroe Alderson, recognized the work of economists (i.e., Chamberlin) and the notion of heterogeneous markets. In Marketing Behavior and Executive Action, Alderson (1957) argued that consumer demand in the United States is radically diverse. Furthermore, practitioners formulate their policies so as to cater to this heterogeneous demand.

“Differentiation by the seller is an adaptation to differences in taste and requirements among consumers. Demand is radically heterogeneous or diversified and quite independent of the actions of the seller...The processes of exchange in the market place are directed toward matching up segments of supply and demand to provide the best fit” (Alderson 1957, 102).

Market segmentation as a function of marketing came to be during the managerial marketing era, and was indicative of the prevailing paradigm of that time. The managerial school emphasized controlling individual behavior (a shift from describing aggregate markets behavior) and relied on social sciences to support marketing research (Sheth and Gross 1988). The managerial school proposed that marketing should be viewed as a system and that marketing exchange or transaction are the central focus of marketing, a perspective introduced by Wroe Alderson (1957) (Sheth and Gross 1988). Practitioners continued to contribute to the advancements in marketing, evident by John B. McKitterick’s (1957) introduction of the marketing concept.

American manufacturers, as well as marketing scholars, put the concept of homogeneous subsets of a heterogeneous market into practice. The shift to market segmentation strategy was evident in the United States automobile industry. In the early 1900s, Henry Ford conceived the Model T as the “universal” car. For Ford, there was no reason for anyone to buy another model; market segmentation played no part in his thinking (Tedlow 1990). By the 1920s, the size of the automobile market (and used car market) presented opportunities for a new strategy of segmentation. The automobile industry seized the opportunity and market segmentation strategy was adopted. In the 1920s, General Motors introduced the price pyramid strategy of a “car for every purse and purpose” (Tedlow 1990). Market segmentation became a dominant business strategy and has remained such for more than eight decades.

HISTORICAL PERSPECTIVE OF MARKET SEGMENTATION

Segmentation is a fundamental element of strategic marketing and planning. Historical research of marketing textbooks published (1960-1980) by Rayburn, Cooke, and Abercrombie (1985) examined the marketing planning concept across several streams of thought and included textbooks authored by E. Jerome McCarthy, William Pride and O. C. Ferrell, Edward W. Cundiff and Norman A. Govoni, Phillip Kotler, and William J. Stanton. The common themes among these textbooks were the increased importance of planning and the relationship of planning with other marketing functions.

Frameworks for historical research offered classification systems by which historical events may be explained. The incisive work of Ronald A. Fullerton (1988), How Modern is Modern Marketing? Marketing’s Evolution and the Myth of the “Production Era,” challenged the soundness of the Production-Sales-Marketing era concept. Fullerton’s (1988, 121) proposed complex flux model that put forward “modern marketing’s evolution as a complicated and fluid process involving simultaneous dramatic change, incremental change, and continuity.” Incorporating conditions in the United Kingdom and Germany, Fullerton (1988) offered a new periodization for historical research that he conceptualized as four distinct phases: setting the stage, the era of antecedents (1500–1750); modern marketing begins, the era of origins (1750–1850); building a superstructure, the era of institutional development (1850–1930); testing, turbulence, and growth, the era of refinement and formalization (1930–1990).

Richard S. Tedlow (1990), a steadfast advocate of big business, suggested that the evolution of marketing was a matter of three conditions. First, the fragmentation phase was characterized by high margin, low volume, and restricted market size due to transportation costs. Second, the unification phase was differentiated by low margin, high volume, and incorporated the whole national in a mass market. Finally, value pricing, high volume, and
demographics and psychographics segmentation distinguished the segmentation phase.

At the 14th Paul D. Converse Symposium, Yorman Wind (1998) presented a synthesis of the evolution of segmentation during the last 50 years (Figure 1). This synthesis compares academic research and practitioners’ adoption and implementation of market segmentation strategies. According to Wind (1998), although segmentation has been the subject of significant marketing research, the concept of segmentation (i.e., Frank, Massey, and Wind 1972) and the approaches to segmentation research have not changed greatly. However, segmentation research continues to adapt to the dynamics of social, political, and economic changes.

**FIGURE 1**
**THE EVOLUTION OF SEGMENTATION**

<table>
<thead>
<tr>
<th>Academic Research</th>
<th>Practitioners</th>
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</thead>
<tbody>
<tr>
<td>1950s Concept development and advocacy</td>
<td>Scattered application</td>
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<tr>
<td>1960s Basic analyses mostly <em>a priori</em> and beginning of cluster based segmentation</td>
<td>Increased acceptance as the foundation of marketing strategy</td>
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<tr>
<td>1970s Increased sophistication</td>
<td>Extension to other areas</td>
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<tr>
<td>1980s Concerns about implementation Augmenting research with modeling</td>
<td>Reexamination of the concept New research and modeling approaches Concern about organizational implications</td>
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<td>1990s</td>
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Early works in segmentation considered demographics, an approach that is easily understood and intuitive. This approach of segmenting markets on easily discernible market divisions (sex, race, age) would give way to psychographics approaches (i.e., attitudinal elements, choice behavior). The technology advances of the 20th century brought forward an information revolution that was pervasive in business management.

Technology bridged territorial borders and cultures, bringing diverse people across and within them. The information revolution has greatly affected the ways in which firms are managed; information strategy is leading the creation of new management and associated marketing paradigm (Baker 2000). This new management and marketing paradigm affected the nature of management decisions, the quality of management decisions, and the nature of business strategies. Market segmentation continued to be a central concept in marketing management and strategy.

**THE EARLY YEARS: 1950s AND 1960s**

The 1950s and 1960s were periods of extraordinary population growth, mainly the result of the postwar baby boomers. The baby boomers born between 1945 and 1960 came to be identified with both highly regarded values (i.e., sophistication, flexible ideology, and a commitment social justice) and less attractive characteristics (i.e., narcissism, self-indulgence, and questionable morality) (McCraw 2000). The boomers influenced education, business, culture, and public policy by challenging institutions (i.e., family, school, business, and government) that had long held American society together (McCraw 2000). This was a period of rock music, political assassinations (i.e., Medgar Evers 1963, Malcolm X 1965, Dr. Martin Luther King, Jr. 1968, President John F. Kennedy 1963, Senator Robert F. Kennedy 1968), the Cold War with the Soviet Union, and the Vietnam War (McCraw 2000). In the face of these social changes, American business moved toward a peak of economic prosperity, typified by an outpouring of consumer goods and the international primacy of American business (McCraw 2000).

Referring to Fullerton’s (1988) typology, the period considered in this study was a period of testing, turbulence, and growth. Methods of gathering, measuring, and evaluating market information were clearly improved (Fullerton 1988). This is evident by the advances in market segmentation research. In 1956, Wendell R. Smith suggested that the diversity in specific markets was attributable to five conditions: 1) variations in production equipment used to design and produce same or similar uses, 2) specialization or superior resources, 3) unequal progress among competitors in design, development, and improvements of products, 4) the inability of manufacturers (in some industries) to eliminate variation in product quality, and 5) variation in producers’ estimates of the nature of market demand (i.e. price sensitivity, package size). Smith (1956) spoke to both differential (attempt to shift or change slope of demand curve) and segmentation policies (disaggregative, recognizing several demand schedules) as components of marketing strategy.

A substantial amount of academic research conducted after Smith’s (1956) conceptualization of segmentation focused on modeling (Cannell and Fowler 1963; Carroll 1969). Two segmentation designs were dominant in the
marketing literature, *a priori* segmentation design (selection of criteria variable by management, such as customer type) and clustering-based segmentation design (segments are determined by clustering of respondents on a set of relevant variables). But, in 1968 Russell I. Haley’s article, *Benefit Segmentation: A Decision-Oriented Research Tool*, suggested a new approach to market segmentation, identification of markets by causal factors rather than descriptive. Haley (1968) argued that the benefits sought by consumers predicted their behavior more accurately than demographic characteristics.

Practitioners continued to participate in the growth of market segmentation strategy. Matter (1964) proposed a psychographics market segmentation strategy, isolating a market by selecting people who react *en masse* to a particular *emotional appeal* or who share common *behavioral patterns*, in lieu of segmentation based on easily discernible market divisions (i.e., youth, sex). This approach to market segmentation paralleled Haley’s (1968) benefit segmentation.

Practitioners’ approach to market segmentation differed from that of marketing scholars. Unlike marketing scholars who assumed a behavior-oriented (focuses on processes of human behavior as criteria variables) and decision-oriented approach (identify market segments by causal factors), practitioners considered a competitor approach. At the AMA 1969 conference, Nelson N. Foote presented an article that examined how segmentation had come to be systematically formalized. Foote (1969) suggested a competitor approach to segmentation; competitor who wishes to emulate the success of a competitor’s dominant theme must come up with an equivalent theme that uniquely fits himself to his situation – that matches his own three Cs (customer, competitors, capabilities). Market segmentation continued to gain attention during the 1960s. “Hardly a conference passes without at least one session devoted to it. Moreover, in March 1969 the American Management Association held a three-day conference entirely concerned with various aspects of the segmentation problem” (Haley 1968, 30). Marketers can segment markets in many different ways - the problem is determining which of the alternative ways is likely to be most productive.

**PERIOD OF REFINEMENT: 1970s**

The *oil shock* of 1973, caused by OPEC’s quadrupled price of crude oil, started a long period of chronic inflation – during the next 10 years, the United States consumer price index rose to 8.2%, the highest rate of inflation for any 10-year period in American history (McCraw 2000). The United States economy of the 1970s was characterized by slowed growth (i.e., real GNP per capita grew about 1.5% after 1973, half that of the previous 30 years), increased federal budget deficits (i.e., from 1975 to 1990 the government deficit ranged from 3% to 6% of GNP), and decreased domestic savings (i.e., saving rate was the lowest of all leading industrial countries) (McCraw 2000). Business trends during this period included: rising need for services; franchising, the new business-format that offered a wholly standardized system of commerce (i.e., McDonald’s, Holiday Inn); the first primitive personal computer, Altair, which became the origin of today’s computer leader, Microsoft; early days of the Internet fomented by the Defense Department’s Advanced Research Project Agency (ARPA); emergency of giant cut-rate retailers such as Wal-Mart; *category-killer* firms that threatened small stores (i.e., Toys’R’Us, Circuit City, Home Depot, Staples) (McCraw 2000). The dynamics of the market commanded improved and expanded business models for strategic planning. Scholarly studies of marketing segmentation conducted in the 1970s contributed to the refinement of techniques, approaches, and criteria variables. Research of the 1970s, although not all-inclusive, is now presented to illustrate the distinct elements of this era in market segmentation.

**Techniques Refinement and New Approaches**

Research of market segmentation in the 1970s covered a wide-range of techniques that helped refine the operationalization of market strategy. Blattberg and Sen (1974) investigated the value of multidimensional market segmentation strategies that would help marketing management define homogeneous groups. More complex statistical techniques were employed, but the marginal benefit of such techniques was cautioned by the investigative work of Willson (1974). Researchers looked to more sophisticated techniques, moving away from *a priori* design (Tolley 1975). These techniques included multiple regression (Green, Carroll and DeSarbo 1978), factor analysis (Levine 1975), multidimensional contingency table analysis (Green and Carmone 1977), derived pair comparison matrices (Sewall 1978), and conjoint analysis (Green and DeSarbo 1979).

The advances in techniques used to segment markets (see previous paragraph) influenced the approaches employed by scholars. Among these scholars was Collins (1971) who argued that the frequent failure of the brand-choice segmentation (segmenting consumers by the brands they choose) approach to detect similar patterns of behavior was due to the use of highly specific search techniques, which were sensitive to only one brand differentiation and the inability to detect consumer behaviors which were common to the product-field. In industrial marketing research, Wind and Silver (1973) applied the segmentation strategy of consumer goods markets to industrial markets.

Normative segmentation is a managerial approach that sought to determine how people of difference structural and functional characteristics could be segments and how market resources should be allocated to the various segments (Mahajan and Jain 1978). Normative segmentation was commonly achieved by aggregating
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consumers into market segments on the basis of similarity of elasticities, marginal responses, or response function coefficients (Tollefson and Lessig 1978). Mahajan and Jain (1978) argued that the development of segments and the allocation of resources to these segments should be simultaneous. This approach was built on the findings of behavior-oriented work, which sought to determine ways to use inter-subject differences to maximize the overall effectiveness of the marketing mix variables (Mahajan and Jain 1978).

With the refining of techniques, as described above, the efficiency of market segmentation strategy became a topic of scholarly inquiry. The cost-benefit approach to market segmentation compares the cost and estimated revenues of segmentation plan to find the break-even level. Winter (1979) developed a cost-benefit segmentation approach that incorporated cost-benefit analysis to determine the appropriate level of aggregation in the market segmentation plans. Buzzby and Heitger (1976) suggested a combination of the contribution approach (identifies cost and revenues by segment), and a flexible budgets would help determine segment efficiency. A similar study conducted by Beik and Buzzby (1973) proposed a profitability analysis as the key criterion for choosing the bases for segmentation.

Conceptual representations of the integration of multiple methods to improve efficiency of segmentation programs were evident in the works of Assael and Marvin (1976) and Dhaliya and Mahatoo (1976). Assael and Marvin (1976) argued that a uniform approach (single variable) to segment markets was not appropriate and an approach that considered marketing stimuli, behavioral criteria, and characteristics of discriminant behavior was superior. Dhaliya and Mahatoo (1976) contended that two of market segmentation schools of thought existed, behaviorally oriented and decision oriented, and suggested that an optimal approach was to fuse the concepts of the two schools. The behaviorally oriented approach focused on the process of consumer behaviors and the decision-oriented approach focused on consumer differences as a determinant of efficiency of marketing programs. The fusion of the two approaches included weight test of the estimated demand schedule, which in turn achieved profit maximization by equating marginal revenue with marginal cost.

Criteria Variables

The notion of discriminant variables in market segmentation was the subject of extensive research in the 1970s. These studies contemplated segmentation variables (criteria variables) that predicted consumer behavior. Frank and Strain’s (1972) study used an attitudinal questionnaire tailored to the product under study and consumer panel purchase data as predictor variables of purchasing behavior. Using canonical correlation analysis, the authors found these variables to be important predictors of purchasing behavior. By contrast, Furse and Greenberg (1975) found no difference in purchase behavior between groups segmented by cognitive style (information seeking and processing) and attitude types (opinions, beliefs, images).

Assael (1976) argued that, although consumer response elasticity was the most effective way to segment markets, it was extremely difficult to implement measurements of elasticity. Psychographics segmentation research examined the affect of choice behavior as a more practical approach to market segmentation (Goldberg 1976). Life style dimensions, as a predictor of behavior, was the focus of several studies (Plummer 1974; Wells 1975; Miller 1978). Other studies contemplated market segmentation in specific industries: Richards and Sturman’s (1977) study in women apparel (bras); Burnett and Oliver’s (1979) study of HMOs in the medical industry; Vambrey’s (1976) study of the airline industry.

Practitioner Approach

Aided by the advances in technology (ability to more easily operationalize market segmentation strategy), market segmentation became a foundation of business strategy. While marketing scholars sought to increase the sophistication of segmentation research, practitioners looked to market segmentation from a communication perspective. Ackoff and Emshoff’s (1975) study of Anheuser-Busch, Inc. noted that the company conducted marketing research to segment beer drinkers by personality type. The study showed that people’s choice of beer was a function of the advertising that best appealed to their personality type. Cohen and Jones (1978) suggested that general merchandise products were differentiated by the degree to which the shopper’s self-image was associated with the purchase.

Towards the Future

Two visionary works functioned as guides for the upcoming decade in marketing strategy and the central focus of market segmentation. First, Derek F. Abell’s (1978) seminal work, Strategic Windows, proposed the idea of market evolution.

“The ‘strategic window’ concept suggests that fundamental changes are needed in marketing management practice, and in particular in strategic market planning activities. At the heart of these changes is the need to base marketing planning around predictors of future patterns of market evolution and to make assessments of the firm’s capabilities to deal with change” (Abell 1978, 26).

Second, the work of Montgomery and Weinberg (1979), Toward Strategic Intelligence Systems, suggested that the means by which the changing future would be successfully managed was strategic intelligence systems. Montgomery and Weinberg (1979) argued that as more
organizations implemented strategic planning and management activities, there would be an increased need for strategic intelligence systems that helped managers identify important interrelated environments and the threats and opportunities that were posed.

THE BOOM PERIOD: 1980s

Many business trends of the 1970s continued in the follow decade. Intensified competition made business management difficult, fostering the need for decentralized management decisions. The impact of the continued growth of information technology was fueled by the concurrent deregulation of telecommunications (i.e., breakup of AT&T's Bell System). During the 1970s, strategic planning moved from the embryonic to the rapid growth stage (Rothschild 1980). The 1980s was a decade of energetic markets fueled by the exponential growth of technology. The advances in technology, which allowed marketers to employ more complex and sophisticated techniques, supported the continued growth of interest in market segmentation. For the marketing discipline, "market segmentation and its counterpart, positioning, rank as marketing's most important contribution to strategic management...these two concepts deal directly with analyzing a firm's environment so as to make a strategic decision about the extent of the firm's domain in that environment" (Biggadike 1981, 624). Research in market segmentation boomed with hundreds of articles on the subject appearing in 1980s academic publications. The proliferation of study was stimulated by the extraordinary growth of minority population (people of color). As executives began to think of minority markets as a source of competitive advantage, the demand for effective segmentation tools increased. Two trends were descriptive of this time in marketing: advances in modeling and the emphasis on sex and age in segmentation.

Advances in Modeling

Schmaars and Schiffman (1984) developed a hybrid of canonical correlation, using simple cross-tabulations to model the predictor variables of market segmentation. The model was tested on female purchasers of romance novels. Arabie et al. (1981) developed an overlapping clustering model called ADCLUS. This model was applicable to marketing studies involving products/subjects that belonged to more than one cluster at the same time (Arabie et al. 1981).

Consumers' transportation preferences were tested using a probabilistic choice model developed by Currim (1981). The findings showed that segment-based choice models were preferable to an aggregate model that depended on the extent of heterogeneity in the market. The success of the probabilistic choice model was confirmed by the work of Gensch (1985). Gensch (1985) empirically tested a logit model and found that meaningful segmentation can predict choice models. Advances in technology were used to advance market segmentation, which is evident by the work of MacLachlan and Johansson (1981) of Automatic Interaction Detection (AID) system and the multivariate AID (MAID). Technology advances also aided in industrial marketing research. Doyle and Saunders (1985) developed a seven-stage market segmentation/product-positioning model for specialized industrial markets.

The trend in market segmentation was a movement from "a priori or ex post factor" modes of segmentation to more effective techniques made possible by the use of computers. Clancy and Roberts (1983) suggested a parsimonious approach, such as a straightforward, logical, and multiple-step strategy as a more effective way of segmentation. This strategy consisted of six phases: 1) hypotheses development, 2) personal interview survey, 3) creation of variables of segmentation, 4) identify discriminating variables, 5) development of segmentation scheme, and 6) identify optimal target group.

Riesman's theory of inner-other-directed social character was the theoretical basis for the work of McCrohan (1980). McCrohan (1980) hypothesized that the other-directed consumer, more concerned about fitting into society, would purchase a more prestigious automobile than the inner-directed consumers. The results of the study supported Riesman's theory. Moorthy (1984) challenged the appropriateness of the model earlier proposed by Frank, Massy, and Wind (1972), because the model assumed that business could directly address individual segments and separate them. Moorthy (1984) argued that this was not an accurate depiction of real world market segmentation and proposed a consumer self-selection model. Blozan and Prabhaker (1984) found that clustering techniques are more effective than the Tollefson and Lessig (1978) model. The presumptions of the Tollefson and Lessig (1978) model could only be justified when the demand function and marginal cost were constant (Blozan and Prabhaker 1984).

Criteria Variables

Research of criteria variables for market segmentation continued in the 1980s, but to a lesser degree than the research of the 1970s. Dickson (1982) argued that situation-segmentation, generally secondary to person-segmentation, provided valuable insights for segmentation. Automation allowed marketers to employ more sophisticated methods of segmentation. For example, VISION, an advanced customer targeting and lifestyle-segmentation system classified households into 48 market segments using clustering analysis (Marketing News 1985, May).

Practitioner Approach

In the 1980s, market segmentation became a strategy of both manufacturing firms and service firms. Practitioners
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The Youth Segment

In the 1980s, marketers focused their attention to the youth market. For the purpose of marketing segmentation, the concept of youth was ambiguous and involved two problems (Hollander and Germain 1992):

1. Many researchers doubted whether the phenomenon of youth existed until very modern times.
2. Establishing the borders of youth was a subject of debate. However, determinate age brackets was an intuitively sound strategy (i.e., 15 to 24).

Notwithstanding the problems of defining youth, the one certain fact was that youth as a segment was a major market.

The youth market was a dominant theme of marketing research in the 1980s. Teenagers of the time represented an under-tapped market for goods (Stern 1984). Although the United States population of teenagers decreased during the late 1970s and early 1980s, many teens worked and had significant discretionary income (Walsh 1985).

Businesses sought to define and segment the youth, because traditional demographics alone were not adequate for segmentation (Marketing News 1985, January). For example, fewer women were full-time homemakers (women enter the work force) and elderly women made up the largest share of full-time housewives (Russell 1985). Changes in household demographics required researchers to re-examine the typical American family (Zeithaml 1985).

American Express changed its advertisement to appeal to Yuppies (Alsop 1985). Banks turned attention to the two-income family through telemarketing and other forms of direct marketing (Bank Advertising News 1985). However, these strategies had a down side. Bartos (1980) cautioned businesses that obsession with young consumers would prove costly. Doing so meant that marketers were not adequately exploiting a consumer market of about 40% of American adults (over 49 years of age) (Bartos 1980).

As foreseen by Abell (1978), adjustment to the changes in the environment was a characteristic of the 1980s. As marketing scholars moved to develop explanatory models of market phenomena, businesses sought to segment the typical American family market.

PERIOD OF EXPANSION - BREADTH AND DEPTH – 1990s TO THE PRESENT

By the year 2000, the American consumer was characterized as gaining market power, albeit often at the expense of manufacturers and retailers, demanding a boarder choice of goods and services, and knowing more about the merits of a product (McCraw 2000). McCraw (2000) described consumer market power as the consequence of rising competitive pressures on products. “If producers did not cater to consumers’ preferences, then other companies would drive them from the market, as had happened with RCA” (McCraw 2000, 211). Fierce competition led many companies to “cut-the-fat” from their employment rolls (i.e., re-engineering, downsizing). The 1990s and the early 2000s was a period of continued refinement and expansion in segmentation research. During this time, conceptual and methodological research sought to expand market segmentation concepts and methodology to international models. Modeling research, which was extensive in the 1980s, continued but to a lesser degree than the previous decade.

Concepts and Methodology

The work of Rajiv Grover and V. Srinivasan in market segmentation was the winner of the 1992 O’Dell Award for the best article published in 1987 in the Journal of Marketing Research (Grover and Srinivasan 1992). The methodology proposed by Grover and Srinivasan (1992, 476) provided key insight of “the structure of a product category in terms of (overlapping) subsets of competitive brands arises from segments of customers who differ in their choice (probability) patterns...our conceptualization differed from the extant view of market structure as resulting from a (homogeneous) hierarchical decision process.” Jain, Bass, and Chen (1999) extended the decision process work of Grover and Srinivasan (1992) by investigating choice and post-choice behaviors in a study of movie choices. The choice model incorporates psychological variables (e.g., consumer expectations) and the post-choice model investigates post-choice evaluation and word of mouth (Jain, Bass, and Chen 1999).

The notion of homogeneity across ethnic groups was challenged in a study of culturally diverse societies, such as Australia (Fires 1999). Fires (1999, 33) argued “no justification is found in the marketing literature for the use of aggregation approaches in culturally diverse societies.” The findings of this study emphasized the importance of market segmentation within group cultures.

Echoing the work of Wroe Alderson (1957), a forward-looking study by Sheth, Sisodia, and Sharma (2000) argued that market segmentation applies to the most finite division, a single customer. The notion of customer-centric...
marketing proposed that marketing began with a mass-market perspective and moved to large segments perspective then a niche segments perspective. The future of marketing will be characterized by customer-centric marketing (Sheth, Sisodia, and Sharma 2000). Recognition of the micro-market segmentation concept was demonstrated in the work of Ali and Rao (2001). Ali and Rao (2001) suggested that traditional methodology and techniques were limited in their ability to segment markets in the era of relationship marketing, growing importance of global marketing in diverse countries, and the focus on micro market segments.

Advances in Models

Research in model testing and new model development continued in the 1990s and early 2000s. This research developed new methodology and tested and improved existing techniques. Bayus and Mehta (1995) constructed a segmentation model that identified households that are likely to make durable goods purchases. The Bayus and Mehta (1995) model took into account timing and replacement purchases as well as household information.

DeSarbo and Wu (2001) proposed a new latent structure multidimensional scaling model that represented jointly the common structure in preferences, attribute information, and dissimilarities in the same spatial map. Brusco, Cradit, and Stahl (2002) set forth a formal treatment of bicriterion partitioning in market segmentation by developing a Simulated Annealing Heuristic (SAH). A problem with partition algorithms (partition the variance in descriptor variables) is the inability to cluster two or more, often conflicting, variables. The SAH proposed by Brusco, Cradit, and Stahl (2002) offers a method that addresses this clustering problem. Brusco, Cradit, and Stahl (2002) tested the model in a telecommunication environment and found that the SAH method successfully identified five segments that showed maximal differences in the key response variables.

Walsh et al. (2001, 127) tested Sproles and Kendall’s (1986) consumer style inventory (CSI) on a sample of 455 German consumers and found that “segmentation based on decision-making styles could be even more appealing when used together with other segmentation criteria, e.g. demographic or psychographic segmentation.” Carmone, Kara, and Maxwell (1999) isolated noisy variables in order to improve clustering design and used the Heuristic Identification of Noisy Variables algorithm, HINoV, to render a more useful cluster.

Practitioners

Today’s practitioners are sophisticated in market segmentation techniques and methodology, but not necessarily satisfied with the effectiveness of these tools (Barron and Hollingshead 2002). As research in market segmentation leveled off (a search of the ABI/Inform database revealed that 884 articles were published in the 1980s compared to 477 in the 1990s), practitioners were reexamining the market segmentation concept. “The acid test for successful market segmentation is to demonstrate that the derived segments respond differently to variations in the marketing mix. Unfortunately, many segmentation schemes fail this key test” (Neal and Wurst 2001, 15). Schoenwald (2001, 38) questioned “whether a global segmentation can be created for a category...it may be possible to find segments that show similar needs profiles many countries, but here are often substantial differences in portraits due to socioeconomic conditions, local social and cultural mores, product availability, etc.” Barron and Hollingshead (2002, 25) noted that “countless approaches to developing ‘the right’ segmentation...are springing up almost everywhere...the trouble is these approaches rarely work.”

SYNOPSIS: 1950s TO THE PRESENT

The notion of market segmentation was grounded in the economic theory development of the early 1900s (i.e., Pigou 1904; Chamberlin 1937), which argued that markets are heterogeneous. This notion was used by American industries in the early 1920s, although academic researchers did not develop the concept of segmentation until the late 1950s. Since then, segmentation has been seen as a key marketing concept and, as such, has been the topic of extensive marketing research (Wind 2000). The concentration of this research has focused on methodology (i.e. classification methods, profiling analysis, scaling), although studies that address problems of segmentation research (i.e. static models, poor integration with strategy, too narrow focus) fostered academic investigation (Wind 2000).

Practitioners have enjoyed great success in adopting market segmentation. For example, in 1920, General Motors’ price pyramid strategy, a car of every purse and purpose, was so effective that it brought Ford Motor Company to the edge of extinction. This competitor approach to segmentation, which was augmented by a communication framework (advertising), continued to be the major structure for practitioners’ market segmentation. Academic research, on the other hand, employed a behavior-oriented and decision-oriented frameworks to develop sophisticated models of segmentation (criteria) as predictors of consumer behavior.

THE FUTURE OF MARKET SEGMENTATION: BEYOND 2003

With the growth of technology advances, several marketing functions are brought into question including market segmentation. With the availability of information and the trend of electronic commerce purchasing, what will
be the contribution of market segmentation in the future? As the borders that divide societies blur, this questions becomes more paramount.

The epistemology of market segmentation must be considered in future research. The positivist approach has not rendered effective models in today's dynamic markets, hence, the call of practitioners for models that work. It is not suggested that scientific methodology be abandoned, but rather that somewhere between anything goes (Feyerabend 1975) and the sacred empirical data (Arndt 1985), an epistemology that accommodates the complexity of identifying a homogenous subgroups within a heterogeneous society will serve to advance academic research.

Research in other disciplines will play an important role in segmentation. Consider the notion of acculturation and the assumption of the ethnic segmentation model that holds that individuals of a minority culture (immigrants) must acculturate into the majority culture. Research in sociology has shown that acculturation is not inevitable (Oetting, Swaim, and Chiarella 1998). According to Oetting, Swaim, and Chiarella (1998), multiple outcomes are possible: individuals do not identify with either their origin culture or the majority culture (marginalization); individuals identify with the majority culture and abandon their origin culture (assimilation); individuals identify with their origin culture and not acculturate into the majority culture (separation); individuals identify with both their origin culture and majority culture (integration). This research offers a framework that better represents the reality of society and culture identification.

Market segmentation in the business-to-business (B2B) environment has been explored in the management literature. Specifically, Sashi and Kundpi (2001) suggested a model that incorporates vertical and horizontal markets in B2B transactions; in business markets a firm's choice of the organizational buyers depends both on choice of the strategy in the value-added chain where its buyers are located and the market segments selected. The advances in B2B segmentation are vital to marketing in light of the emerging trend of movement from transactional to relational procurement.

Gibson (2001, 21) summed up the situation when he suggested that market segmentation is "too important to marketing and marketing research to ignore its flaws and limitations or to leave its proper role undefined." The challenge for the future of market segmentation is the creation of new knowledge that is born from the contributions of existing research, developed by the adoption of a modified epistemology, and matured through the implementation of new frameworks.

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