SOME NEW THOUGHTS ON MARKET SEGMENTATION

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Marksegmentasie en die nut daarvan het die afgelope dekade baie aandag geniet. In hierdie artikel word twee aspekte daarvan opnuut ondersoek: die belangrikheid van die segmentering van die nie-blanke mark in Suid-Afrika, en die verdeling van die mark in segmente.

In the recent articles on market segmentation available in South Africa, much emphasis is placed on the importance of segmenting the non-white market. This article argues that the development of meaningful economic segments among the non-whites paradoxically will be achieved better by concentrating harder on exploiting the white market segments.

The marketing concept is, strictly speaking, where the industrialist tries to satisfy the needs of the customer.

To stay in business an industrialist must satisfy the needs of the customer. Therefore any business must practise the marketing concept or disappear.

However, today the term marketing concept is more often used to describe a firm where management *consciously and at great lengths* look first at the needs of the customer before it considers its other needs, such as financial resources, management skills and production capability. Here it will be used in this sense.

Before the Industrial Revolution, man's needs were apparent. They were the basic necessities required to stay alive and independent — food, shelter, clothing and defence.

With the arrival of the Industrial Revolution, industrialists did not have to look hard for what markets they needed to satisfy. The challenge was to provide better methods of supplying these needs. As factories arose to meet these needs they in turn gave rise to further obvious markets. Goods and services had to be supplied to the manufacturers themselves. Coal was necessary for the Spinning Jennys, plant was necessary for the coal mines and so huge manufacturing complexes arose giving ordinary man wealth that had never before been seen.

The time spent for man to obtain the basic necessities has been greatly reduced. The time over can now be utilised to satisfy other less apparent needs. These needs are indeed less apparent and are no longer universal.

Man needs to eat — supplying him with bread was once sufficient and almost every man was pleased to get it. Today, however, the ordinary man in a developed country with a large discretionary income can and does choose crackers or one of a hundred other things instead. In the days gone by man used to move, by foot or horse. Today man moves by car, train or air and if by car, he might choose a Cortina, a Rolls-Royce or perhaps a beach buggy.

The needs of a man in a developed country are not now so obviously clear to the industrialist as they were and he must consciously and at great length look for further needs to satisfy. To satisfy these new needs he will have to produce new products or services or improve, or change, the image of existing ones.

The marketing concept, as we have defined it, is not necessary in an undeveloped country, or in one where manufacturing capacity is behind demand. There the needs are so well known they don't need exploring. After the last war, for instance, one didn't have to spend much time worrying about what kind of car the consumer wanted. It was clear any car would be good enough as long as he could get one. The accent was on mobilising the resources to produce them.

Russia, a highly developed country where manufacturing capability is in balance with known demand, has adopted a profit centre concept of economic planning. It is merely recognition of the difficulty of planning on a centralised basis to meet the consumers' now much more complex and much less obvious desires.

In underdeveloped countries the need for a production orientated industry is more apparent and is more easily planned for by a centralised body. This is one of the reasons why probably many of these countries are experimenting with socialistic systems.

In South Africa we have two existing economies side by side – one of the world's most highly developed ones (the white population) and an undeveloped one (the Bantu homelands) – with, of course, the inevitable grey area between (Coloured, Indians and urban Bantu). Political expediency and the desire to avoid urban slums has ruled against drawing the citizens of the undeveloped Bantu homelands into the marketing orientated white economy. The Government has, therefore, only two ways to develop the economies of the homelands. The one is to close the homelands against products from white South Africa and then develop factories in them to supply their population's obvious basic needs.

The other, which is the one embarked upon, is to force industry into the homelands – or unto their borders – to provide "export" goods and services to the developed white economy.

This concept, as a deliberate policy, is perhaps unique in the world. It is approximately equivalent to the United States sending all its television set manufacturers to the Ivory Coast in order to import the sets back into the U.S.

To a certain extent some manufacturers from highly developed countries have moved to lesser developed countries in order to export goods back into the highly developed countries. They have only done this where there is a marked economic incentive, usually cheap, but unskilled labour.

Our policy makers and planners to be consistent should, therefore, be spending money on trying to improve the quality of the labour in the homelands in order to develop an incentive for the white based industries to be attracted to them.

As South Africa has chosen to build up the manufacturing base of the homelands on goods "exported" to the white economy it is necessary for South African businessmen to base themselves on a marketing concept turned towards the white economy. It is not important – and won't be until they are much more highly developed – to worry about such a concept for the homelands. Their needs are basic and should be obvious and few industries are going to be designed specifically to cater for them.

In practice the market should only be divided into those segments that are –

* sufficiently cheap to get information about,
* sufficiently cheap to disseminate information to,
* sufficiently cheap to distribute the goods and services to,
* sufficiently useful to the businessman.

After all businessmen are in business to make a profit.

We have shown that the Bantu homelands do not yet need a marketing orientation. The urban Bantu, the Coloured and the Indian, as yet, dot not have the discretionary income of the white and their needs are still basic. The financial rewards of segmenting the non-white market beyond rural and urban is in almost all cases not worth the cost. This will stay the case until the non-white's discretionary income reaches a decent figure and his needs become both more difficult to know but financially more worth knowing. Market men have been bamboozled by the total spending power of the non-white population when, as recent work by the Bureau of Market Research has shown, the urban non-white discretionary income is still very small.

We believe that the marketing manager would better serve the country by concentrating his scarce time and skills on satisfying new needs and aspirations in the white market, thereby enabling his company to employ more non-whites in producing these goods and services, thereby giving them more discretionary purchasing power and hence creating a non-white market worth segmenting. In fact, putting the marketing horse back in front of the marketing cart.

Various useful methods of segmenting the market have been written about at length and a particularly good summary has been prepared by A.P. van der Reis of the Bureau of Market Research at the University of South Africa.[1] No purpose will be served repeating these methods here.

All the normal methods start with the whole market and break it down. This article gives a completely new way of arriving at market segments by building the segments up from tiny elements.

This new method, at least pedagogically, is a step forward. It places the attention of the aspirant manager on the shifting, transitory nature of the market segment to whom he is selling.

Before looking at the market en masse or divided into useful segments it is helpful to first see of what each segment of the market as a whole is made up. This puts into perspective the limitations of our knowledge and the transient nature of any market or market segment.

In the segmentation theories put forward no one talks or writes explicitly about the smallest unique segment of a market, which we will name a MARKETING ELEMENT.

The reasons for this is, to see the smallest unique segment, or element, of a market is to see something so complex that it makes one despair of even building on it a rigid theory. Despite this, the market element serves a useful conceptual purpose.

To define this element we must show what we mean by a market. A market is what exists when a decision is irrevocably made to buy something whether it is a product, an idea or a service. People who have not made this decision are a potential market.

These decisions are always ultimately motivated by people. Even if a computer made the actual purchase, a person was behind the decision to let the computer buy under various constraints.

A market exists when a person makes an irrevocable decision to purchase or when he sets up some system that will make the decision to buy.

Therefore at its fundamentals the market is segmented into individuals acting by themselves or as a group.

These individuals will probably act differently when buying if they are acting for themselves, for others, or as a group.

A person will buy the book he wants to read. If he is buying the book for a friend he will buy the book he thinks his friend wants to read. If he is buying the book for the schools of the Transvaal Provincial Administration, he will buy a book after discussing it with examiners, teachers and financial people.

Besides acting differently depending on whether he is buying the book on his own, or in a group, the individual will make different decisions as time goes by.

If he goes into the bookshop early in the morning he might decide to buy something to improve his mind or his golf. If he goes in in the evening after a hard day at the office he might just as easily decide to buy a James Bond with which to relax.

If he is on a group buying decision and is in a bad mood and consequently upsets the rest of the group, they might conceivably decide to buy a book he is against. If he is in a good mood and charms the group they might buy the book he recommends.

He will also act differently depending on how much money he has at that particular time. If he is flush — or spending someone else's money — he might buy an illuminated, leather-bound, five-colour print manuscript. If he is broke — or feeling broke — or mean — he might just buy a second-hand paperback at a charity stall outside the town hall.

Then, too, his environment will influence him. A newspaper headline might prompt him to buy something, or stop him. The chairman of a company might talk down a large scheme at the board meeting that afternoon because someone at the club, over lunch, had said, between the soup and the fish courses, that the Government really meant it when they talked about stopping inflation.

Therefore, a market element, or the smallest unique segment of the market, is anyone of 20 000 000 people in South Africa in all their single or interrelated complexity at any given instant of time. An instant later there are 20 000 000 different market elements.

This market element can be expressed mathematically (as is fashionable these days in marketing circles) as:

$$\text{M.E.} = \frac{d(x)}{dt}$$

where M.E. is the smallest possible marketing segment, or as we have called it, the "market element", t is time and where x is differentiated with regard to it. x is the function expressing the complexity of each individual, and is, of course, a function of time.

While psychologists, human behavioural scientists and theologians have attempted to explain man by himself, or in relation with others, x is still largely unknown. Scientists only have incomplete, and biased, models of human behaviour.

There is thus, unfortunately, nothing mathematically useful in this model. It does show, however, simply and clearly that the smallest unique market segment or element is ONE VERY COMPLEX PERSON *AT A GIVEN INSTANT OF TIME.*

It is little wonder then that the marketing element has been ignored in writings on market segmentation.

The methods of segmenting markets have started with the market as a whole and then have broken it down into useful sectors.

These methods give too little importance to the fact that the fundamental nature of each segment is made up of individuals and these individuals change with time.

It is better to start with the market element and synthesize it into the useful market segments.

It is because of the transient nature of the segment that market information is the problem it is. Often management gets into trouble because of its data. The data are not accurate enough, or timely enough, to allow management to realise the full significance of changes which have occurred or are about to occur. We submit this often arises because management tends to forget that the "solid" segment they have become used to and trust is built on a mass of squirming, unreliable and constantly changing marketing elements.

The fact that the elements of the segment will change with the time of day should lead to an interesting field of research with regard to how readers perceive an advertisement published in the morning papers as against the evening papers.

It seems clear that from at least a teaching viewpoint, the building up of a market segment from its elements serves a useful purpose in that it will teach the student to think of a segment as a thing that can, and does, constantly change because it is made up of a constantly shifting base.

Too many managements today think that the marketing job is finished once they have honed into the segment of the market which has particular relevance to them. One can hope our new way of thinking about market segmentation will help prevent this problem in the future.

REFERENCE

Van der Reis, A.P., "The Current Controversy About Market Segmentation: Should Your Market be Segmented and, if so, How?" *Bulletin,* Bureau of Market Research, No 35, Dec. 1969, pp. 3-20.