

Is There Brand Segmentation?

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Summary:

Segmentation has been a central concept in marketing theory and practice for decades. Since F.B. Evans' controversial article "Psychological and objective factors in the prediction of brand choice: Ford versus Chevrolet" (1959) several studies have been conducted in attempt to capture meaningful relationships between brand choice and psychographic, demographic and behavioral variables. The idea that different brands appeal to different profiles of customers is intuitively adopted by practitioners and academics as conventional marketing emphasizes the importance of segmentation, brand differentiation and positioning to marketing success. But does brand preference really discriminates between customers? The purpose of this paper is to present the results of an empirical study of the Bulgarian market for 1) four categories of fast moving consumer goods and 2) three categories of durable products. The main objective of the study is to examine the existence of brand level segmentation of the customers of competing brands.

Key words: segmentation, brand preference, demographics, psychographics

JEL classification: M3

1. Introduction

The STP process (Segmentation – Targeting – Positioning) has been fundamental to traditional marketing for decades. It is believed that these three activities, performed in that order, describe the content of strategic marketing. Two main ideas underlie the STP concept: first, markets are not homogeneous but "differentiated" (the concept of market segmentation); second, the needs of individual segments should be met by developing an appropriate product differentiation strategy (the concept of product differentiation). With the rise of the concept of positioning in the interpretation of Ries and Trout, emphasis in STP logically began to move from the concept of market segmentation to the idea of brand segmentation and the idea of product differentiation moved to the idea of image (imaginary) differentiation. This idea inspires a natural tendency of managers to divide customers into "ours" and "others", which in turn involves the search of different positioning lines in order to differentiate their brand from that of their competitors. But is brand segmentation not just a manifestation of market segmentation? And if we find significant differences in the client bases of Mercedes and Volkswagen, for instance, can we attribute those differences to the brands themselves or to their belonging to different price ranges?

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The first study to draw attention to the use of psychographic and demographic variables in predicting brand choice was made by Franklin B. Evans, who in 1959 examined the relationship between automobile brand image of two of the most popular brands by that time – Ford and Chevrolet and their owners' personality. The study compared the abilities of psychological and objective variables to predict automobile brand choice showing that measures, whether separately or combined, were only weakly related to the ownership of the two brands. The study provoked a strong debate as by that time the purchase of a car had a deeper symbolic meaning to Americans and companies strived to build distinctive images of their brands. Since then numerous studies have examined the existence of predictive relationship between brand choice and different sets of variables, among the most noticeable of which are R.Kennedy and A.Ehrenberg's study of the data of BMRB International's Target Group Index for 42 varied industries in the United Kingdom, the results of which testify to the lack of brand segmentation. Other studies on the subject include Geraldine Fennel, Greg Allenby et al. presented in their articles "The Effectiveness of Demographic and Psychographic Variables for Explaining Brand and Product Category Use" (2003) concluding that demographics and general descriptors are not appropriate for explaining relative brand preference as they describe what type of person is more likely to use a certain product category but do not provide information about the motivating conditions that lie behind the preference of a particular brand. "No brand level segmentation? Let us not rush into judgment" (Marketing research, 2002). This

paper presents the results of a study of the Bulgarian markets of four widely used categories of fast moving consumer goods – beer, yogurt, sausages and toothpaste and three categories of durable products – mobile phones, laptops and cars. The following principles underlie the selection of these particular categories: 1) maturity of the market (the presence of multiple and established brands, free competition); 2) experience of the customers (knowledge of the category, clear preferences); 3) variety (the categories should be representative of the market); 4) involvement (the categories selected should have different levels of customer involvement); 5) the presence of strong marketing efforts for positioning and differentiation of the brands. The markets of these categories in Bulgaria have mostly matured during the last 10 years and previous research focuses on stable, well-developed markets in Western Europe and the USA. One of the purposes of the study is to examine if previous findings about the lack of brand segmentation apply to developing markets as well, such as the Bulgarian one.

2. Main Hypothesis

The main hypothesis of the study is that there is no brand level segmentation – brands' profiles do not differ in ways that are meaningful and actionable from a managerial perspective. The existence of brand level segmentation is whether a manifestation of hidden market segmentation or an exception to the rule.

The main hypothesis was tested with the help of the following supporting hypotheses: H1: There is no brand level segmentation - similar brands in terms of price, brand penetration and market share

would have similar demographic profiles of their customers; H2: There is no brand level segmentation - similar brands in terms of price, brand penetration and market share would have similar psychographic profiles of their customers.

3. Methodology

The MSoD¹ (Many Sets of Data) approach was adopted for the purposes of this study. The MSoD approach requires the use of prior knowledge obtained through integration and comparison of several sets of data, drawn from different populations. This approach contrasts with the traditional SSoD (Single Set of Data) techniques which lead to instant resolutions but do not contribute to theory building or have any lasting explanatory power.

For this study, the selected approach comprised the use of several samples of data for seven categories of products collected in three waves. The analysis of the data was separated into two parts – analysis of the psychographic profiles of each brand and analysis of the demographic profiles of the brands. Since the markets of the four categories of fast moving consumer goods can be seen as repertoire, the subsamples of users of each brand consist of respondents who have indicated that 1) the brand is the one that they use most frequently or 2) is among the brands the respondent uses most frequently. The study of the three categories of durable products included current users of each brand. The study data was processed by the methods of descriptive statistics. Both demographic and psychographic profiles of each brand were compared to the average percentage profile (the average

brand) for each variable. The magnitude of the differences between the profiles was estimated by calculating the mean absolute deviation (MAD) which was preferred to the traditional standard deviation as a more stable indicator of dispersion for non-normal distributed data. The psychographic profiles of the brands were outlined through the system for psychographic segmentation *ConsuMetrix* developed by Prof. Simeon Jeleu and which is based on the following three dimensions: 1) Buyer power (Low – High); 2) Openness (New – Established goods); 3) Orientation (Saving - Spending). The system includes 30 variables, such as "I like trying out the new things on the market, "I budget well when I go shopping", "I consider myself financially sound", measured on 5-point Likert agree-disagree scales. The analysis also included a set of 18 variables which studied the respondents` lifestyles, beliefs and consumer behavior such as "I try to live healthy", "The opinions of others matter to me", etc.

The data for the study was collected through personal face-to-face interviews. Quota sampling procedure was applied following the age and gender distribution of the adult population in Sofia and major cities in Bulgaria. The sizes of the samples for the two categories of FMCG and durable products are accordingly 1082 and 870. Both samples consist of different respondents and data collection is sufficiently remote in time, which makes them suitable for the implementation of the research approach.

4. Results

In summary, the results were positive and supported the hypotheses. The profiles of

¹ See Ehrenberg A. and Bound J., "Turning data into knowledge", Chuck Chakrapani (Ed.) "Marketing research – state of the art perspectives", 2000

the users of competing brands did not differ significantly. The deviations from the average psychographic profile larger than five percentage points were 16% for the durable products and 26% for the FMCGs. Although in general few differences were found to expose the existence of meaningful brand segmentation, some grouping was observed within the car and the beer markets in Bulgaria. At first, it appears that the profiles of the German Volkswagen and Opel brands are in tune with their popular image that is being imposed by their advertising campaigns – according to the results of our study, two brand owners are more likely to be conservative and less inclined to take risks than the owners of another popular brand in Bulgaria – Peugeot. However, these differences cannot be attributed to the brands' differentiation and segmentation but to some specifics of the Bulgarian car market, in which only a small portion of the population buys new cars and German brands are known for their durability and reliability. French cars on the other hand are perceived as too fragile and non-suitable for Bulgarian roadways and people who dare to buy French cars buy mostly newer cars. To sum up the situation, the car park of Volkswagen consists of older and respectively cheaper vehicles than the one of Peugeot, even though the two brands are competing in the same class. So, we may assume that behind the seeming psychographic segmentation lies a well known demographic and market segmentation.

A clear distinction was found between users of the more expensive foreign brands of beer and users of national average and low-priced brands although the absolute monetary difference between the prices of the two groups of brands is

relatively small. In both studies, most of the significant differences were found for above- and below-average priced brands. Logically, the users of expensive brands are more likely to define themselves as financially reasonable, more open to trying new products, eager to pay more for quality items and bring more entertainment. Users of cheaper brands on the other hand, tend to prefer the old established brands to the new ones and deprive themselves of many things to live. They do not tend to buy things they do not need. Similar brands in terms of price, brand penetration and market share were not found to have significantly different psychographic profiles of their users. These relationships can be seen in figure 1 which compares the user profiles of 8 popular beer brands along Dimension 1 (Openness). Similar groupings were found with the toothpaste category where origin-based segmentation is observed too.

Even fewer differences were found between the demographic profiles of the brands – for the FMCGs category only 15% of the deviations from the average profile were larger than five percentage points and 12% for the durable products. It is also observed that cheaper brands have some penetration in the higher income groups and vice versa. Table 1 summarizes the results for six psychographic variables for the users of seven beer brands and Table 2 compares the brands' demographic profiles against each other and against the average brand. Zagorka, Shumensko and Kamenitza are average priced (standard class) national brands and Ariana is a cheaper mass brand (economy class). Table 3 and 4 summarize the results for the same variables for the category of laptop computers. Differences higher than five percentage points have been highlighted.

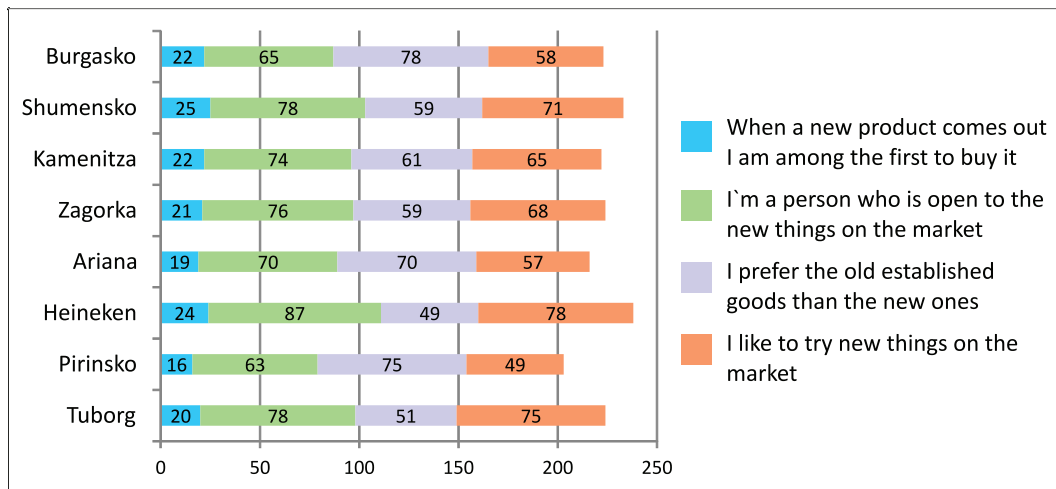


Fig. 1. Percentage of beer users who have agreed or completely agreed with the statements reflecting Dimension 1 (Openness)

Table 1. Deviations from the average profile for six psychographic and lifestyle variables (Beer)

Beer brand	I consider myself financially sound	When a new product comes out I am among the first to buy it	I budget well when I go shopping	It is not uncommon for me to buy things I don't need	I usually buy one and the same brand	I try to live healthy	I spend too much time working	The opinion of others is important to me
Zagorka	4	-1	0	3	2	1	-3	2
Shumensko	0	3	-1	-1	1	2	1	1
Kamenitza	6	5	1	3	-1	1	0	-2
Ariana	-4	-3	1	-1	1	-6	-5	-2
Tuborg	3	0	-6	2	-1	7	6	2
Heineken	6	0	-2	6	-2	2	6	7
Becks	6	3	-3	11	0	5	-2	1
Average MAD (All brands)	2	2	2	3	3	4	3	2

Becks has 11% more users than the average brand who have agreed with the statement "It is not uncommon for me to buy things I don't need". Kamenitza has 6% less users than the average brand. The mean absolute deviation for the statement "I consider myself financially sound" for all brands is 2.

The customer base of the average brand consists of 53% male users and 47% female users. Zagorka has 51% male users and

49% female users. 40% of the users of the average brand have low income, 50% medium income and 10% high income. 20% of the users of Heineken belong to the low income group, 60% have medium income and 20% have high income.

The lack of systematic differences between the profiles of competing brands is also evidenced by the low values of the mean absolute deviation as shown in Table 5.

Table 2. Brand profiles by gender, age and income (Beer)

Beer brand	Users	Gender (%)		Age (%)					Income (%)		
		Male	Female	20-29	30-39	40-54	55-64	65+	Low	Medium	High
Zagorka	334	51	49	22	20	34	14	11	41	51	8
Shumensko	311	55	45	25	22	32	11	10	36	56	8
Kamenitza	307	55	45	23	20	31	14	11	38	57	5
Ariana	263	55	45	19	19	32	15	15	48	46	6
Tuborg	150	53	47	27	28	32	9	4	29	49	22
Heineken	142	52	48	29	25	32	8	5	20	60	20
Becks	120	56	44	28	21	34	8	9	35	58	7
The average brand		53	47	23	20	31	16	11	40	50	10

Table 3. Deviations from the average profile for six psychographic variables (Laptop computers)

Laptop brand	I consider myself financially sound consider myself financially sound	When a new product comes out I am among the first to buy it	I budget well when I go shopping	It is not uncommon for me to buy things I don't need	I usually buy one and the same brand	I try to live healthy	I spend too much time working	The opinion of others is important to me
Acer	-6	-2	0	1	-2	-3	-2	-5
HP	3	4	-3	1	1	1	0	0
Toshiba	-2	0	1	0	1	1	-1	-4
Dell	9	0	3	5	-2	0	-1	1
MAD (All brands)	5	3	4	3	3	3	3	4

Table 4. Brand profiles by gender, age and income (Laptop computers)

Laptop brand	Users	Gender (%)		Age (%)					Income (%)		
		Male	Female	20-29	30-39	40-54	55-64	65+	Low	Medium	High
Acer	158	49	51	44	37	15	4	1	22	63	15
HP	150	53	47	45	35	17	2	1	20	57	23
Toshiba	143	49	51	38	43	16	3	0	19	57	24
Dell	120	53	47	44	38	16	2	1	20	59	21
The average brand		50	50	40	40	16	3	0	21	58	21

Table 5. Mean absolute deviations for the seven product categories

Product category	Demographic variables (MAD)	Psychographic variables (MAD)	Lifestyle variables (MAD)
Toothpaste	4	8	3
Beer	3	4	2
Sausages	3	3	3
Yoghurt	4	3	2
Cars	4	5	3
Mobile phones	5	2	2
Laptops	3	5	4
All categories	4	4	3

5. Conclusions

Extensive research has been dedicated to consumer segmentation and targeting. But having knowledge of consumer personal features and demographic characteristics does not necessarily suggest that we can predict consumer behavior and preferences. Is there such thing as "our customers"? Competing brands usually share similar customer bases and are perceived as substitutable and complementary. Furthermore, even if there is brand segmentation on some occasions, it is rarely meaningful and actionable. Usually the signs of brand segmentation conceal well known market segmentation, e.g. brands from different price ranges have different image and

might have customers which significantly differ in terms of social class, lifestyle and other demographic and psychographic characteristics.

It has been long known that brands differ mostly by their size and market penetration² and users are usually split-loyal to a set of brands³. It is also known that most customers do not perceive their preferred brands as "unique", nor do they hold many unique associations about them and further, unique associations have no additional value than any other type of association⁴; the users of small brands have similar attitudes against the brands they buy as the users of bigger brands.

In order to be successful, brands need not be perceived as the best or better

² See Ehrenberg, A.; Goodhardt, G.; Barwise, P. (1990) "Double Jeopardy Revisited", Journal of Marketing, Vol.54, no. July, p.82-91.

³ See Brown G. (1952-1953) "Brand Loyalty – Fact or Fiction", Advertising Age, 23 June 1952 – January 1953 (series).

⁴ See Romaniuk, J.; Gaillard, E.; "The relationship between unique brand associations, brand usage and brand performance: analysis across eight categories", Journal of Marketing Management, Volume 23, Issue 3-4, 2007.

than their competitors but to be regarded as a good example of their *category*. We can no longer "put a golden stripe and charge more" as some marketer once said, therefore creative advertising and distinctive image are not sufficient to build strong brands.

The good news is that companies no longer need to restrict their efforts to serving the needs of a particular segment or segments but instead, a vast and attractive mass market is being revealed to them. Mass market, however, suggests the presence of more intense competition regarding all elements of the marketing mix – it means better products, powerful advertising, more effective distribution and pricing and higher demands from consumers who can choose from a growing variety of products and brands.

That's why, it is recommendable that companies: 1) define the most important attributes that customers seek in a product; 2) deliver these attributes, meeting and where it is possible, exceeding customers' expectations about the product itself 3) examine and follow closely the dynamics of consumers' priorities – the mass market is more volatile and difficult to predict and things that are most important today might become secondary or no longer relevant in the future; 4) make their brands noticeable to consumers so they can include them in their buying repertoire; 5) do not impose unnecessary limitations to their target market.

6. Scope of the Study and Possible Follow-Up Research

One of the limitations of the study is the use of quota sampling. A representative survey on the problem could enrich and consolidate the results achieved so far. Another limitation of the study is the limited number of product categories included – only seven. Further research should cover services markets, financial products and other categories as well. For a more complete understanding of the problem, future studies need to examine markets in a different stage of growth such as emerging or growing markets for example, as those are not stable and fully structured, products vary significantly and the phase of parity has not been reached yet. Markets in times of economic crisis also might be tested for the existence of brand segmentation – such economic situation might drastically change the purchasing patterns as customers are becoming more intelligent and resourceful buyers looking for better value for their money, often overcoming their habitual shopping behavior. Other variables might also be employed in future examinations of the problem such as brand loyalty, benefits sought by the customers, motivating conditions, etc.

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