ESO 165

MARKET SEGMENT APPROACH TO RETAIL COMPETITIVE STRATEGY: THEORY vs PRACTICE

B. W. Marion

Department of Agricultural Economics and Rural Sociology
The Ohio State University

August, 1973

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Marketing academicians have placed considerable emphasis on the importance of "segmenting" markets, defining market targets for a firm, or in general partitioning potential customers into groups with relatively homogeneous demand characteristics. [7, 10 and 12, for example] The late Wroe Alderson described the operation of the market system as a matching process--in which elements from heterogeneous supply offerings are matched with like elements from heterogeneous demands. [1, pp. 23-36] Alderson thus saw demand as multi-dimensional, and unlike some economists, perceived that aggregate demand for a product may be made up of an unlimited number of different preference combinations. This concept provides an essential tenet for the market segmentation approach; however, this approach seems to receive greater acceptance in the classroom than in marketing practice.

This paper examines the problems in using the market segmentation approach to determine competitive strategy in food retailing. It also considers the extent to which studies of consumer behavior can be useful in

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*Associate Professor, Department of Agricultural Economics and Rural Sociology, The Ohio State University.

identifying market segments and assisting firms to tailor their competitive mix to a particular group of customers. The results of a study of consumers in a large midwestern city together with a simple attitude salience model are used to illustrate some of the points in the latter sections of the paper.

The ideas set forth are not particularly profound. Nor do I make any claim that they are original. The only justification for this paper is that they are so often ignored or misunderstood.

Market Segments in Retailing: The Dilemma of the Marginal Float

The market segment approach to marketing strategy suggests that retail food firms should attempt to partition a market according to different consumer preferences, and seek to satisfy the demand characteristics of certain segments. The logic of this approach is persuasive. Among other things, this approach converts one market with several competing sellers into several sub-markets in which the various firms may operate with relatively little competition.

However, in food retailing, market segmentation seems to have occurred to a very limited extent. The industry has frequently been criticized for its "me-too-ism." Contrary to the idea that competition is the search for a differential advantage, competition in food retailing might be more appropriately described as the fear of being different. Many retail firms are apparently reluctant to define a particular market segment,

concentrate on serving that segment, and to let other firms serve the remainder of the market. Perhaps it's too tempting or less risky to try to be all things to all people. I would propose, however, that there are other factors that contribute to this situation. Defining them may help us understand the extent to which market segmentation in retailing is desirable or feasible.

Market segmentation depends upon:

(1) Heterogeneity in customer preferences

(2) Supply offerings by different firms that are perceived as different by customers

When the proportion of customers with certain preference combinations is equal to the proportion of offerings with the same perceived combination of characteristics, market segmentation can be considered at equilibrium. A perfect match would have been achieved. Aggregate satisfaction would be maximized.

If, however, these conditions do not hold, as is often the case in heterogeneous markets, then customer-retailer match-ups would not be in balance; the market would be discrepant. Markets that are both heterogeneous and discrepant are inherently dynamic as efforts are made to remove the imperfections. [1, p. 27-28] Some customers search for their desired set of offering characteristics, and firms attempt to alter their product-service-price mix to attract these customers.

In food retailing, the lack of market segmentation seems to stem from the following factors:

(1) The relative similarity of the offerings of many firms, perhaps in part due to points 2-4 below.

(2) The difficulty experienced by consumers in accurately detecting differences in retail offerings. I.e., actual differences are often not accurately perceived by consumers, particularly where those differences are slight.

(3) Market segmentation is inconsistent with the strategy and operating practices of most retail food chains. In general, chains demonstrate a strong affinity for standardization of stores, merchandise, displays, pricing, etc., and considerable difficulty in merchandising a store to an area. Thus, to the extent that individual market segments are concentrated geographically rather than dispersed (the distribution of population by income and ethnic group suggests that some concentration of market segments likely occurs), chains experience considerable difficulty in tailoring their competitive mix to appeal to certain segments. Given the geographic dispersion of chain stores, a competitive strategy that "aims down the middle" is more likely. To the extent that certain market segments are broadly dispersed geographically, this limitation would not hold since all stores in a chain could be oriented toward certain types of customers.

(4) The competitive mix in retail markets has been unduly influenced by the "marginal float"--that small proportion of customers that are not loyal to any particular seller and are easily switched from one firm to another.

The impact of A & P's WEO program is illustrative of point four. The widespread effect of this program is not because a majority of customers switched to A & P. A strictly low price appeal, which is what WEO is, will have particular appeal to a certain segment of the population--but a rather small segment in most areas. Thus, one would expect those firms that emphasize non-price factors such as pleasant stores, interesting displays, quality perishables, and friendly employees to be largely immune to WEO. Why should they respond by dropping prices to meet A & P ?

Unfortunately, a sort of domino effect seems to take place in these cases. If there are three firms in a market--A, B and C--with A being the price cutter, C the service-quality oriented firm and B somewhere in between, a price reduction by A may not hurt C much. But it may take 10 or 15 percent of B's business. If B responds to regain this marginal float of customers by dropping prices, C may begin to feel the effects and decide they have to respond by dropping prices. Thus, all firms end up in a me-too-ism response to avoid losing a minority of customers. Greater homogenization of retail offerings results and aggregate consumer satisfaction may very well decline.

Perhaps this is the way it has to be; a fact of life we have to accept. It reminds me of political campaigns,which I'm told are primarily aimed at the 10 to 20 percent of voters who are independent, and can swing an election one way or another.

Consumers and marketing firms would benefit, I believe, from greater differentiation of competitive offerings; from more efforts to define certain market targets and to tailor their product-service offers accordingly. The result would be a much more diverse marketing system with more alternatives from which consumers could choose, and more opportunities for specialized firms to fill particular niches. This calls for more independent action by managers; it calls for resisting the tendency to gravitate toward competitors in products, prices and services offered; in short, it calls for the desire and willingness of managers for their firms to be different.

Given some of the deterrents to market segmentation already mentioned, perhaps a plea for greater diversity in retailing is idyllic. However, has it received a fair trial? I would submit that market segmentation research and attempts in food retailing have often been accompanied by "fuzzy thinking," by a lack of clear understanding of the phenomena with which they are dealing. Thus, some carefully conceived, executed and interpreted studies of consumer store selection behavior are badly needed; studies that hopefully

avoid some of the pitfalls of previous studies. Toward this end, let me suggest a conceptual approach that I have found useful.

In considering consumer attitudes and decisions concerning store selection, I find it important to distinguish between:

---the factors that are important to consumers in selecting and shopping food stores, and

---the factors that may be involved in a particular situation in choosing one store over another.

Many studies have not distinguished between these two sets of responses. For example, consumers may be asked, "What are the most important reasons for your shopping in the store you do?" and the answers interpreted as the basic motivating factors involved in store selection. Instead, if consumers have accurately interpreted the question, they would identify the important differences in store offerings that cause them to shop one store rather than others.

I have developed a rather simple conceptual model that I've found useful in studying consumer store selection. (See Figure 1) While I've not attempted to operationalize the model, it provides a classification scheme that is helpful in examining any buyer-seller match-up .

FIGURE 1. Attitude Salience Model for Classifying Firm or Product Characteristics to Indicate Their Influence on Competition

		Importance of Characteristic: Very Important			No Importance
Characteristics Where Variations Are Expected	Large	+++	++	+	N *
	Perceived Difference	++			N
		+			N
	None	N	N	N	N
Characteristics Where Minimum Standards Are Expected	Satisfactory	N	N	N	N
		–			N
		– –			N
	Very Unsatisfactory	– – –	– –	–	N

* N indicates a neutral influence

I find it a useful simplification to divide those factors influencing customer action into two categories; factors on which variations are expected, and factors on which minimum standards are expected. As Figure 1 suggests, the characteristics in the first category are the primary sources of positive drawing power. The second group of characteristics, on the other hand, are generally neutral or negative in their influence--seldom positive.

The second (or lower) category represents those characteristics that have received wide adoption in an industry. In the retail grocery industry, consumers expect stores to provide adequate parking, adequate check-out service, clear price marking, a check-cashing service, honest pricing of merchandise, etc. Because these characteristics are generally available at acceptable levels, they influence customers only when they are unsatisfactory. They frequently are mentioned as sources of irritation, but very seldom as the reason for choosing a particular store. They thus represent characteristics upon which a store cannot rely to differentiate its offering to consumers. These characteristics do vary in their importance to customers. An <u>important</u> characteristic that is judged very unsatisfactory by customers (dishonest practices, for example) may be a strong negative force in causing customers to leave or stay away from a particular store or product.

On the other hand, the first category includes those factors where differences among firms are expected; i.e., where the experiences of consumers indicate that uniformity or minimum standards within the industry have not evolved. In this case, the two considerations that determine the impact of a particular characteristic are somewhat different. First, how important is the characteristic to customers in their seller selection decision? Second, are there recognizable or perceived differences among sellers? The quality of fresh meat, for example, is an important consideration to most consumers. Whether in fact it influences the store selection decision depends upon whether there are differences in quality that are recognizable or perceived by consumers as they shop different stores. Similarly with prices, the quality of fresh fruits and vegetables, the friendliness of employees, and the pleasantness of the shopping experience; whether in fact there are differences in these factors among stores is not the question. The real question is whether consumers perceive differences; further, the importance they place on the different factors. [1]

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[1] The attitude salience concept has been recognized by many others. For example, Nelson Foote of General Electric wrote in 1961: "In the electrical appliance business, we have been impressed over and over by the way in which certain characteristics of products come to be taken for granted by consumers, especially those concerned with basic functional performance, or with values like safety. If these values are missing in a product, the user is extremely offended. But if they are present, the maker or seller gets no special credit or preference, because quite logically every other maker and seller is assumed to be offering equivalent values.

In other words, the values that are salient in decision-making are the values that are problematic--that are important, to be sure, but also those which differentiate one offering from another."[6, p. 11]

Factors in the first category that are important to consumers in selecting food stores represent the potential means for achieving store differentiation. It is from this set of factors that management should select those on which their firm can realistically expect to achieve a differential advantage.

Whether, in fact, consumers are able to identify and articulate the factors that are fundamentally "important" to them yet have little influence on their current selection decisions (e.g., little or no differences between stores are perceived) is open to question. Burgoyne, Inc.'s annual studies of supermarket shoppers, for example, indicate that "low prices on groceries" increased strongly in importance as a factor considered by consumers in selecting a favorite supermarket between 1958 and 1971. This increase occurred during a period when incomes were increasing faster than food prices and when logic would suggest less concern with price. However, discount stores and discount pricing in food stores were also becoming more prevalent during this period. Not only were greater differences in prices apparent to consumers, but weekly ads placed heavier emphasis on price competition. It is probably correct to conclude that consumers became more price oriented during this period because of these factors. Whether, in fact, they were more strongly motivated to be economical in 1971 as compared to 1958 is perhaps another question. For example, if

consumers could have wiped the slate clean in 1971 and defined the product-price-service mix they preferred, would they have demonstrated as strong a concern for low prices?

Because of reservations about the ability of consumers to distinguish between those factors that are generally important to them and those that are salient for a particular store selection decision, I employed a somewhat different approach in a 1971 study of 366 consumers in a large midwestern city. Rather than asking consumers to identify or rate the factors they consider in selecting a food store, a perceived self-image approach was used. This approach draws on Janet Wolfe's contention that women behave so as to support the image they want to have of themselves. [15]

The self-images used in this study were based upon the different types of consumer buying orientations that have been identified in other store selection research. Gregory Stone, for example, identified four basic types of consumers in a study of Chicago consumers. [14] These were:

33 percent --- the economic consumer

28 percent --- the personalizing consumer

18 percent --- the ethical consumer

17 percent --- the apathetic consumer

In another study, Blackwell used the Q sort to categorize consumers by their views of an ideal supermarket. He identified three basic types of consumers; economy oriented, convenience oriented, and product-quality oriented . [2]

Drawing on these studies as well as other findings, two questions were developed to determine consumer self-image. The first gave descriptions of six basic types of customers. Consumers were asked to identify the statement that best described them, and the statement that least described them. The second question provided four statements about store loyalty, from which consumers selected the one that best described them.

The statements included in the first question and the proportional responses were as follows:

		Best Describes %	Least Describes %
a.	I go where I enjoy shopping. Good customer services, a nice store, and a friendly atmosphere are important.	9.3	13.1
b.	I shop where I can get the products I like. A good selection of merchandise is important.	31.0	2.2

		Best Describes %	Least Describes %
c.	I like an honest, dependable store. The stores I shop are reliable and have good reputations.	7.7	4.2
d.	Convenience is the big thing for me. I shop where it doesn't take a lot of time and effort.	12.8	33.5
e.	High quality food is important to me. I shop where I can buy the tops in quality.	17.6	11.2
f.	I am a thrifty shopper. I try to shop where I can save the most on food.	21.7	35.8

These responses provide some insight into the importance of various store characteristics for different types of consumers (i.e., its columnar location on Figure 1), and also whether the characteristic is in the upper or lower portion of the model. For this sample of consumers, selection of merchandise was easily the characteristic most universally sought. Nearly one-third of the respondents said that this best described their orientation as a shopper, and only 2 percent said it least described them. An additional 18 percent characterized themselves as high quality in orientation. Thus, product selection and quality concerns characterized nearly 50 percent of the consumers in this market.

Comparing the two proportions (best and least) provides some indication of the salience of different characteristics and the degree of consensus about a particular characteristic. The responses on store honesty, for example, suggest that this is a fairly universal concern (only 4 percent said it least described them), but one that is low in salience at this point in time (only 8 percent said it best described them). Store honesty, thus may be viewed as an important but non-problematic store characteristic for most consumers in this particular market. Referring to Figure 1, store honesty would generally fall in the lower portion of the model (minimum standards are expected) in one of the left-hand columns (very important or important). For a small group of consumers, however, (8 percent) store honesty would be in the upper portion of the model.

One-third of the consumers identified with either the convenience and low price self-image statements. However, these statements also drew rather strong negative responses. Seven out of ten respondents found that these least described them as shoppers. These statements may convey images of laziness and unconcern for quality, and thus trigger a negative response. One of the limitations of this approach was reliance on single statements to measure consumer orientations. The validity of the results could be easily affected by the wording of each statement. If the responses are accurate, however, then for one-third of the consumers in this

market, convenience would be in the right-hand columns of the model (relatively unimportant); similarly regarding price for another 36 percent of the consumers.

Additional tabulations of the self-image responses are shown in Tables 1 and 2. For the purposes of this paper, the store loyalty of different types of consumers is of particular interest. Consumers who perceived themselves as thrifty shoppers also tended to rate themselves much lower in store loyalty than other types of customers. It is this group of customers that would be a large component of the "marginal float" in this market. If the marginal float is assumed to be the 17 percent of consumers who classified themselves as highly disloyal, then over half of these are also "thrifty" in orientation.

If this group of customers has a disproportionate influence on competitive strategy, as suggested earlier, then this influence would likely carry a low price bias. Over time, this influence would tend to distort the competitive mix in a market relative to consumer preferences; i.e., the degree of match would decline. A possible counter force to this would be the tendency of retailers, according to the "wheel of retailing" concept,[2] to upgrade stores and shift toward non-price competitive weapons over time.

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[2]The wheel of retailing notion has been proposed by Malcolm P. McNair of the Harvard Business School. McNair contends that successful low price innovators inevitably "trade up" over time to better products, store facilities, etc., leaving room in the process for yet another low price innovator. [11, pp. 18

Table 1

Characteristics That Least Describe Customers in Six Self Image Groups

Least Characterized by:	Customers Best Characterized by: Pleasant Experience	Produce Selection	Store Reputation	Convenience	Produce Quality	Thrifty	Total No.	Total %
	%	%	%	%	%	%		
Pleasant experience	—	10.3	12.5	25.0	5.5	22.1	41	13.1
Produce selection	—	—	8.3	5.0	1.8	2.9	7	2.2
Store Reputation	—	5.2	—	—	5.5	7.4	13	4.2
Convenience	37.9	39.2	20.8	—	36.4	45.6	105	33.5
Produce quality	13.8	7.2	16.7	12.5	—	22.1	35	11.2
Thriftiness	48.3	38.1	41.7	57.5	50.9	—	112	35.8
No. of respondents	29	97	24	40	55	68	313	
% of respondents	9.3	31.0	7.7	12.8	17.6	21.7		

Table 2

Comparison of Store Loyalty With Six Self Image Groups

Best describes self:	Best Characterized by: Pleasant Experience	Selection	Reputation	Convenience	Quality	Thrifty	All Customers No.	All Customers %
	%	%	%	%	%	%		
Loyal customer	85.7	65.7	70.4	61.2	48.4	32.1	198	56.9
Switch occasionally	14.3	22.2	25.9	22.5	38.3	28.2	90	25.9
Switch often-no favorite	—	12.1	3.7	16.3	13.3	39.7	60	17.2
No. of respondents	35	99	27	49	60	78	348	

Reasons for Shopping at Particular Stores

The self-image questions provided some indication of the basic orientation of consumers in the market studied. To determine what store characteristics were salient in specific store selection decisions, consumers were asked, "What are the most important reasons for your shopping in the store you do?" The responses should identify factors located at the upper left of the attitude salience model for different consumers. The responses were grouped into categories similar to those used in the self-image questions and were as follows:

	Reasons for Selecting Present Store	% of Consumers With Self-Image
Price Reasons	14.2 %	(21.7)
Product Quality Reasons	19.5	(17.6)
Convenience Reasons	19.5	(12.8)
Merchandise Selection Reasons	14.7	(31.0)
Pleasant Shopping Experience	26.8	(9.3)
Store Honesty & Reputation	0.0	(7.7)

Figures in parentheses are the percentage of consumers that selected each characteristic as the one that best described them. Thus, if consumers were willing and able to accurately respond to these questions (admittedly a big if), some rather marked differences in responses are apparent. The results

suggest that while 31 percent of the consumers were oriented toward merchandise selection, only 15 percent found the differences in selection at competing stores an important reason for their store selection. The opposite situation can be noted concerning a pleasant shopping experience; only 9 percent of the consumers identified with that image, yet it represented 27 percent of the reasons given for choosing a particular store. Compared to other store characteristics, perceived differences in shopping pleasantness were apparently substantial. Thus, although for many consumers a pleasant shopping experience was not identified as a very important store selection criteria, differences in the market cause it to have a strong influence on customer store selection. (On Figure 1, it may be at the top of the second column for many consumers; for others it may be in the lower category as something they expect.)

Use of the Attitude Salience Model for Firm-Market Segment Matching

The attitude salience model can be used to compare the attitudes and selection criteria of different market segments with a firm's competitive advantages and disadvantages as perceived by consumers. To do so in a comprehensive fashion, however, would require research that delves into consumer store selection attitudes in greater depth than the study discussed in this paper. A hypothetical illustration of firm-market segment matching

is shown in Figure 2, using a modified version of the model from Figure 1. In this example, a rather good "fit" is demonstrated between the preferences of a particular segment and the offerings of Firm X.

Summary Comments

This paper has critically examined the application of market segmentation to the development of competitive strategy in food retailing. It has argued that a lack of market segmentation occurs for a variety of reasons, including the undue influence of the marginal float of consumers in different market areas, and the paucity of sound research on consumer store selection attitudes and criteria.

The marginal float in a market is in part a result of inadequate market segmentation (the characteristics of supply offerings are not perfectly matched to the combinations preferred by customers; customer satisfaction is therefore sub-optimal). A rather simple attitude salience model is suggested as a means of more accurately studying and understanding consumer store selection attitudes and behavior. This in turn could facilitate increased market segmentation in the retail food industry by helping researchers and managers identify characteristics that are important to consumers but on which little competitive emphasis has been placed; similarly, to identify characteristics that are either unimportant to consumers or that have become standardized, and therefore do not warrant emphasis.

Figure 2. Attitudes of Quality Oriented Consumers vs Firm X Characteristics

Important ← → Unimportant

Characteristics Where Differences Are Expected:	Meat Quality	Produce Qual.	Bakery Qual.	Selection	Store Clean-liness	Employee Friendliness	Convenience	Prices	Wide Aisles
Rating of Firm X Relative to Competition: +	x	x	x	x					
N					x	x	x	x	
-									x

Characteristics Where Minimum Standards Are Expected:	Store Honest	Parking	Check-out	Check Cashing	Carry Out
Rating of Firm X: N	x	x		x	
-			x		x

There is little question that the mix consumers prefer shifts with changes in incomes and life styles. Competing sellers, through the things they emphasize, also condition customers to some extent. Retail managers have much to gain, however, by being sensitive and alert to factors that may not be in the competitive spotlight, but which are still of fundamental interest to consumers; to market segments whose preferences are not being met by existing offers. Scores of companies have realized success by identifying and filling market vacuums--and have contributed to a more effective marketing system in the process.

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