International market segmentation

by Dr. Yoram Wind and Professor Susan P. Douglas
Wharton School, University of Pennsylvania and CESA

The authors propose an operational basis for international market segmentation which focuses on "enduring" and "situation specific" characteristics. They propose a hierarchy approach to segmentation.

In the numerous texts and articles on international marketing which have recently appeared [8, 10, 14, 16, 18, 24] there is at best no more than a brief mention of international market segmentation. Why this omission? Is the concept of market segmentation, which has been widely accepted in domestic marketing, not relevant in international marketing?

It is the basic premise of this paper that the concept of market segmentation is at least as applicable to international marketing as to domestic marketing. Segmentation research is however much more complicated, and to a large extent a neglected area of investigation in both international companies and universities. The purpose of this paper is, therefore, three-fold: first to highlight the nature and importance of international market segmentation; second, to suggest an operational approach to international segmentation, which provides guidelines for segmentation research and, thirdly, to review briefly some of the possible bases for segmenting international markets.

INTERNATIONAL MARKET SEGMENTATION

Market segmentation is in many respects a logical outgrowth of the marketing concept [4, 11]. Given the heterogeneity of most markets, segmentation in both domestic and international markets entails breaking down the market for a particular product or service into segments of customers which differ in terms of their response to marketing strategies. By doing so, the firm can tailor its marketing policies to the needs of each specific segment, hoping to obtain more favourable response and thus greater profits than by following a uniform strategy aimed at the entire market. Segmentation is therefore only appropriate if profits from the additional sales gained from such a strategy outweigh the costs of focusing on a specific segment or of following different policies to different segments.

In international markets the advantages of segmentation appear potentially at least as great if not greater than in domestic markets. Because of differences in the cultural, economic and political environment between various countries, international markets tend to be more heterogeneous than domestic markets. The range of income levels, the diversity of life-styles and of social behaviour is likely to be significantly greater when considering the world as opposed to a national market. The existence of such heterogeneity provides substantial possibilities for identifying different segments. In addition the mere size and diversity of the international market may increase the need for and desirability of segmentation.

Furthermore, lack of familiarity with diverse foreign environments tends to lead to generalization or over-simplification of demand condition in overseas markets. This can take the form of developing national stereotypes of purchase behaviour of the type criticized by Dichter [3], of artificially emphasizing differences in foreign markets, or alternatively of attempting to ignore them. A policy of segmentation helps to alleviate problems arising from such misconceptions, since it requires explicit consideration of the magnitude and relevance of differences and similarities between foreign countries and their implication for customer responses.

Segmentation in world markets also provides a number of advantages from an organizational standpoint. Following the logic of price discrimination, if segments with different elasticities of demand with regard not only to price but also to other marketing variables can be identified, then different levels and combinations of marketing effort may be directed at each segment. Thus marketing activities may appropriately be planned, organized and controlled by segments. Information on international markets may be collected and organized by segment. Management of overseas activities may be administered by segment and the segment may provide the appropriate unit for evaluation and control.

The advantages of segmentation may thus be hypothesized to be in part a function of the diversity and size of the market considered. Depending on the number and range of countries involved, a firm operating in the international arena may find a segmentation strategy more appropriate than a firm which operates only in a domestic market.

If one accepts this premise, the question is not whether to segment the international market but *when* to segment (profits from segmentation are greater than the cost involved) and *how* to segment (*what* bases for segmentation should be considered). Since both decisions require certain information inputs it is first necessary to design an appropriate research strategy. One such strategy is presented next.

AN OPERATIONAL MODEL FOR INTERNATIONAL MARKET SEGMENTATION

In domestic markets customer characteristics such as age, sex, social class, personality, brand loyalty, product usage and attitudes toward the given brand are often used as bases for segmentation. In international markets on the other hand a further dimension has to be considered, namely that of country characteristics.

Each country is characterized by specific environmental conditions, such as certain cultural and social patterns, level of economic and technological development which affect buying patterns and response. Thus these environmental factors may provide general indicators of overall market response.

In addition unique national political and legal characteristics tend to place certain constraints on marketing policies as well as affecting customer responses. This may necessitate a different approach or adaptation to different market conditions. Country characteristics are therefore important considerations in identifying potential target markets and developing appropriate marketing strategies.

International markets can therefore be segmented in a two-step process (a hierarchy of segments). First the "macro" segment composed of individual or groups of countries can be identified based on national market characteristics. Then within each macro-segment the market can be further subdivided based on customer characterization. Schematically, this approach is summarized in Figure 1.

The distinction between country and customer characteristics is somewhat arbitrary since in many cases country characteristics are defined in terms of customer characteristics of the given country. The operational distinction between the two sets of characteristics is, however, that country characteristics are those common to all customers of the given country such as national character or dominant cultural patterns. Customer characteristics on the other hand are those characteristics which enable a distinction among various customers within a country such as social classes, age, sex, etc. Whether there is a strong interaction between country and customer characteristics or not, this approach provides an operational guideline for segmentation research and the interaction can be taken into account when establishing the customer segments.

Assuming this distinction between country and customer characteristics, the proposed hierarchical approach starts with the identification of "macro-segments" of countries. This enables an initial screening of countries and selection of these countries, which on the basis of national market characteristics, legal and political constraints, provide potentially attractive market opportunities. Countries where political and legal constraints constitute a major barrier to market entry can be eliminated. The grouping of countries into homogeneous "macro-segments" provide a reduction in the total research effort. Instead of examining buying patterns in each country individually, this analysis is limited only to these macro-segments which

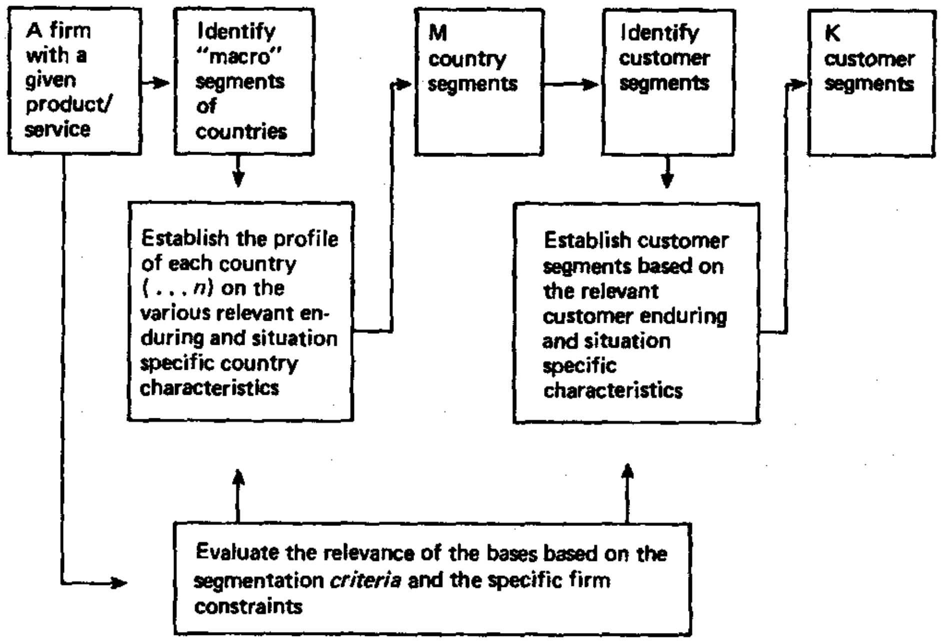

Figure 1: The hierarchy of segments approach to international market segmentation

passed the initial screening. Furthermore, since most of the data for the initial screening can be drawn from secondary sources, and the screening procedure can be programmed, the first research phase—establishment of macro-segments—is relatively cheap, and can be standardized as part of the firm's information system.

Once markets have been segmented at the macro (national) level, they are then further subdivided by customer characteristics, for example, by income group or by age bracket within each country. The appropriate bases of segmentation within macro-segments may be the same across all macro-segments or may differ. In the first case, target groups of customers can be identified on a world-wide basis [26]. Thus for example if teenagers in Japan, the U.S. and Canada have similar buying patterns and interests, the relevant target segments may be the teenage market in this set of countries. Similarly if executives of international companies exhibit similar buying patterns, irrespective of their national origin, the international executive set might be a relevant target segment. Alternatively, different bases of segmentation may be used in each macro-segment. In one macro-segment the relevant basis might be level of income, while in another, attitudes toward the product might be more crucial.

At both levels of segmentation, following the classification of bases for segmentation developed by one of the authors [9, 29] two types of bases for segmentation are distinguished; general characteristics and situation specific characteristics. General characteristics do not vary across purchase situations, and include at the customer level demographic, socioeconomic and psychological (personality and life style) characteristics. Situation specific characteristics are those that vary with the individual purchase situation or particular product such as brand loyalty, frequency of purchase and attitude toward the given brand.

Similarly at the national market level, general characteristics are the intrinsic characteristics of the country, such as geographic location and G.N.P., which affect the general character of demand—the types of goods purchased and the way in which they are purchased, etc. Situation specific country characteristics are national market conditions which relate to a particular product or purchase situation, for example legislation on a particular product, assistance provided to certain industries, the degree of competition in a particular market, etc.

At the customer level the relevant bases of segmentation are, conceptually at least, the same as in domestic markets. Enduring characteristics such as age, income, social class and life style, may be identified in any country, though the way in which they are defined or measured may differ. Situation specific characteristics are again the same in concept as in the domestic market, for example, attitudes toward brands, etc.

This classification scheme is illustrated in Table 1. The bases suggested here are not considered definitive nor all-inclusive, but rather as possible elements to be considered.

The appropriateness and relevancy of any particular base for segmentation will depend on the specific market situation and firm constraints. Any decision to segment on a particular basis should be evaluated in terms of four major criteria: differential marketing response, profitability, measurability and accessibility. Different segments must not only be characterized by different responses to market variables, but the costs of segmenting the market must be outweighed by the profits generated. It must be possible both to identify customers belonging to a given segment and reach them with the firm's marketing strategies.

In using country characteristics as bases for segmentation, it is important initially to establish the link between country characteristics and differential marketing responses. Measurability clearly poses little problem since the country is the basic unit of analysis. Similarly the geographic and political separation of countries suggests that the criterion of accessibility is easily satisfied. Profitability has, however, to be evaluated separately for every product/market/firm situation. Subsequent discussion on general and specific country characteristics focuses, therefore, on the relation of each characteristic to marketing response.

Table 1: A classification scheme of various bases for international market segmentation

	Enduring characteristics	*Situation specific characteristics*
Country	Geographic location Demographic and population characteristics	Economic and legal constraints Market conditions
Characteristics	Socioeconomic Cultural patterns Political factors	Product bound culture and life style characteristics
Customer	Demographic characteristics: age, sex, life cycle Geographic location	Consumption patterns Loyalty patterns Buying situations Attitudes (perceptions and preferences)
Characteristics	Socioeconomic Personality and life style characteristics	

BASES FOR SEGMENTATION

In designing segmentation research, one faces the pitfall of considering as possible bases for segmentation only some obvious country characteristics such as geographical location and level of economic development. Since most international companies do not follow a conscious strategy of segmentation, let alone engage in segmentation research, it is the purpose of this section to briefly highlight some of the possible bases for segmentation at the macro-country level, recognizing of course that once a macro-segment has been identified, the specific bases to be selected should be based on customer characteristics which do not differ from the ones used in domestic segmentation.

A) General country characteristics

General country characteristics have generally received the greatest attention as determinants of international demand. This may largely be due to the wealth of information available on such characteristics, as for example in the U.N. and U.S. Department of Commerce publications and to the ease of identification of these characteristics.

Geographic location

One of the most popular and commonly used bases for grouping countries is by geographic location. Thus a firm might develop different strategies in selling to customers in Europe as opposed to Asia or Africa. Countries in close geographic proximity often have similar cultural patterns and climatic conditions. For example, European countries tend to have similar cultural habits, just as the Far Eastern countries form a distinct cultural group. Thus different types of products, such as food items, leisure equipment, clothing or apparel may be most appropriate for the different regional groups. Regional divisions also provide a convenient organizational structure for the company from both the administrative and a cost standpoint.

Demographic or population characteristics

Demographic characteristics such as the age structure of the population may also provide a convenient basis for segmentation, for example, companies selling products which are particularly geared to a certain age group such as baby foods, geriatric items and records. Similarly the number and relative importance of different racial groups in a country might affect the diversity of cultural patterns within a country, and suggest a need to deal with each racial group separately.

The level of socioeconomic development

The level of socioeconomic development is also traditionally considered an important determinant of buying patterns for both consumer and industrial goods.

In the case of industrial goods, the level of economic development tends to be associated with the degree of industrialization of the country, and hence with demand for certain types of complex industrial products, such as sophisticated electronic products or information services.

Equally in the case of consumer goods, the level of socioeconomic development may affect the size of the market for a particular product as well as the type and quality of products bought. Countries with low levels of economic development may not have mass markets for luxury items such as automobiles, air-conditioning, household gadgets, etc.

However, in some emerging countries, income distribution may be highly skewed with a very small proportion of the population with very high levels of income [7], thus providing a restricted market for expensive luxury items, such as jewelry and clothes. Countries at different levels of socioeconomic development also tend to have different educational levels, standards of living and rates of economic growth which may significantly affect purchasing patterns. For example, countries with high percentage of literacy and high levels of education, such as Japan, may provide a better market for health items, vitamins, art goods, scientific instruments and other education dependent items than countries with comparable G.N.P. but lower levels of education.

Use of the level of development as a base for segmentation poses some questions in terms of an appropriate unit of measurement. G.N.P. per capita has been one of the most commonly used measures of economic development. However levels of expenditure are clearly not the sole nor even the most critical socioeconomic determinant of expenditure patterns. Thus, more complex measures of socioeconomic development, including for example, educational levels, level of technology and degree of urbanization, may provide a more appropriate indicator of consumer buying patterns. Although a number of attempts have been made to develop indices of this nature [12], little is known concerning the relationship between such indices and consumption other than in very general and broad terms.

Cultural characteristics

Another potentially useful basis for segmentation is cultural characteristics. Attitudes toward social institutions are features of different cultural patterns.

Thus, factors such as the importance of family as opposed to group influences, and the status of women in society may affect purchasing behaviour. Where women have low status they may be considerably less influential in purchase decisions than in societies such as the U.S. where they have a relatively high status. For example, Singer, in selling sewing machines in Middle Eastern countries, found that their agents had to sell machines to the husband rather than the wife, and further had to convince him that this would make the wife more efficient and productive, rather than save her time and effort [10].

Different cultures are also characterized by differing degrees of receptivity toward change. This influences the willingness to accept radically new products and new ideas. The American culture tends to be highly receptive toward and actively interested in change, to the point of valuing products for their novelty and newness alone. In more tradition-oriented societies such as Great Britain change may be regarded as highly undesirable and traditional and established products more highly valued, resulting in considerable resistance to new products and ideas and style changes [2, 20].

Differences in belief systems between cultures may also affect purchasing patterns. Dietary laws associated with particular religions will clearly affect food purchasing patterns. Differences in ethical beliefs may also play an important role. For example, the emphasis on hard work associated with the Puritan ethic may result in a rejection of "convenience" or "labour-saving" appeals.

The aesthetic aspects of culture clearly have implications for marketing strategy. Preferences for different types of colour and design must be considered in product and package design. Language differences might imply not only the need for translation of a standard message into another language, but also differences in cultural association and therefore in the type of appeals used [13, 28].

Different cultures may be characterized by certain personality types. To the extent that personality traits affect needs and motivations, this may have important consequences for purchase behaviour. For example, the German orientation toward authority and orderliness observed by Spindler [21] may lead to greater susceptibility to appeals emphasizing legitimation by authority figures, or appeals to hard work.

But although culture is intuitively an appealing base for segmentation it is difficult to use due to both conceptual and operational problems, ie, the existence of such cultures and the difficulties in defining and measuring cultural characteristics.

Political factors

The type of political regime may also provide a basis for international segmentation. Although little is known on the differences in purchasing patterns of societies with different political systems, this appears particularly appropriate for industrial goods.

The character of the political system may influence buyer motivations, the role and position of the decision-maker and the constraints affecting the buying decisions. It is seen likely that there will be differences in the relative importance of various marketing mix elements in state-controlled enterprises as opposed to free enterprise countries. Furthermore government control of enterprise might result in a higher degree of centralization in purchasing agencies or bureaucracies. In developing countries, state officials may be the crucial gatekeepers in obtaining a contract [27].

B) Situation specific country characteristics

Considerably less attention has been paid to the consideration of the role of national characteristics specific to particular purchase situations and products. Three specific sets can be identified: (a) economic and legal environmental factors; (b) market conditions such as the degree of competition, business attitudes, stage in product life cycle, state of technology and the characteristics of the intermediate market organization; and (c) product bound culture and life style characteristics.

Economic and legal constraints

Economic and legal restrictions may play an important role in influencing demand for specific products. Government economic policy may affect the climate of demand for certain types of products through directing resources toward the production of certain commodities and thus stimulating demand for specific production inputs. Government assistance to agriculture and to infant industries may stimulate demand for certain types of industrial goods. In Jamaica, for example, the government programme to assist and encourage cooperation among independent farmers has helped to stimulate demand for small mechanized farm equipment.

The imposition of tariffs or taxes on certain goods such as luxury items or alcohol, may tend to dampen demand for such items. In some cases import taxes will tend to restrict the size of the market and limit the product to higher income groups. This may however also give the product greater prestige; for example, Danish furniture and cookware, English woollens.

Specific legal restrictions such as patent agreements, quality standards and controls may also influence product specification. For example in sales of pharmaceutical products, local legislation concerning ethical drugs is a crucial factor in determining whether or not a particular product can be sold in a given country.

Regulation on consumer credit may also have an important effect on demand for major household appliances. For example in the United Kingdom, relative ease of obtaining financing is an important factor in stimulating demand for major consumer durables. Conversely, difficulty in obtaining consumer credit is considered to be an important factor in restricting demand for consumer durables in the Middle East [22].

Market conditions

A second set of characteristics which affect demand for a particular product are general market conditions, such as the degree of competition, business attitudes, stage of product life cycle, state of technology and the nature of the intermediate market organization.

The degree of competition in a particular market will affect response by customers to alternative marketing strategies as well as their perception of the price and quality characteristics of firms. For example, if a product is subject to resale price maintenance customers may be more sensitive to quality differences or to store variables. In convenience foods brand loyalty may be stronger since the advantages of brand switching are perceived as small.

Business attitudes may affect the type of marketing strategy pursued by organizational buyers. In markets characterized by dynamic progressive business attitudes, buyers are likely to engage in a higher degree of search, be more inclined to pursue aggressive purchasing policies, etc.

The stage of the product life cycle in a given country may also affect the nature of buyer interests and needs. Where a product is at an early state of its life cycle, consumers may need to be convinced of the desirability or need for the product, and to be made aware of potential uses. Where the product is already accepted, emphasis may be on new features or uses or on specific attributes of the particular brand. Polaroid, for example, in introducing the Swinger into Europe had to educate customers on the advantages and uses of "on the spot" development, since previous Polaroid models had not been widely sold in Europe. The stage in the life cycle of competing or associated products is another relevant factor. For example, sales of small labour-saving household gadgets such as electric carving knives and can-openers may depend on whether major types of appliances have previously been purchased.

A further factor affecting demand is the level of resource technology. Many products have certain "support" requirements, for example refrigerators are necessary for the sale of frozen foods, electronic data processing equipment requires knowledge by someone of how to operate it. Thus sales of certain technologically complex products may depend on the availability of certain skills to handle and to maintain them.

The nature of the intermediate marketing organization may also affect the character of demand. In international markets the role of marketing intermediaries may become particularly crucial, since in many cases they may be in an important power position in the channel. In overseas markets wholesalers and retailers are frequently the "channel captains". Thus "selling" the intermediate marketing organization may be more crucial than "selling" the final customer.

In addition the number, size and type of outlets as well as purchasing policies may affect demand for certain products. For example, the number and extent of self-service outlets may determine whether certain items such as frozen foods can be mass-distributed. The number and size of retail outlets will both reflect and influence the frequency of purchasing and the size of the package purchased. There is little room for the giant or king-size package, familiar in the U.S. supermarket, in the tiny neighbourhood superettes which abound in Europe or in the small shops of the Far East.

Product bound culture and life style characteristics

Differences in the general life style and cultural values may also affect attitudes toward specific products. For example, the French, compared with other Western countries, are noted for spending a considerable amount of time entertaining outside the home. This results in less interest and importance attached to home furnishings and to the role of the home as an expression of the family's taste and social position.

Similarly cultural values associated with material possessions may affect which products reflect status. For example, in Britain, possession of traditional and inherited items carries greater status than possession of expensive modern items or Scandinavian furniture which are valued by middle-class America [20].

But although national characteristics are useful in providing an initial base for segmentation, substantial variations in purchasing behaviour may exist within countries, for example between regions and social classes.

Thus national characteristics alone are not enough to provide an adequate base for segmentation. In addition the marketing manager must delve beyond generalizations about market response to examine customer characteristics within a country and purchasing patterns of different sub-groups within a culture.

The problem of interaction between country and customer characteristics further underlies the importance of investigating customer characteristics within a country. Just as in a domestic market emphasis on identification of customer interests is required to develop appropriate marketing strategies, so in international markets it is doubly important to avoid generalizations and misconceptions due to lack of study and familiarity with the foreign environment.

CONCLUSIONS

One of the major problems confronting the international marketing manager faced with the breadth and diversity of international markets is how to identify potential target segments, and what information to collect for this purpose. A systematic two-step procedure to identify and analyse target segments has been proposed. First, countries can be divided into similar groups on the basis of national market characteristics. Then within these groups markets can be further segmented on the basis of differences in customer characteristics within each group. The initial examination of national characteristics reduces the cost and effort of the research task entailed. Attention can quickly be focused on countries with high potential rather than laboriously examining customer characteristics in each country one by one.

The approach also enables consideration as bases of segmentation not only of general country characteristics such as political, economic and geographic characteristics, but also the situation specific characteristics. While the situation specific characteristics such as the distribution system competition are not normally included in traditional classifications of countries, they are often crucial in determining the potential or feasibility of a given target segment.

It is not enough, however, to consider only country characteristics in attempting to identify relevant market segments. Classifications of countries on the bases of country characteristics appear to provide only very weak indicators of marketing behaviour in a country [4]. Thus further investigation of both general and situation specific customer characteristics within a country is required to identify relevant target segments.

The relevancy of the various alternative bases will depend to a large extent on the particular product considered. In any specific case the appropriate base will depend on the size of given product or service, the firm's objectives and constraints and the potential size of the segment, the ease of its measurement, its accessibility and the cost of reaching that segment. In international markets the latter is in many cases likely to be more crucial. Research should therefore be directed not only toward identifying the relevant country and customer characteristics, but also toward evaluating the cost and benefits anticipated from segmenting on a given base.

REFERENCES

[1] Carson, D., *International Marketing*, New York: John Wiley, Inc., 1967.

[2] Colborn, A.F., "Marketing: British and American Attitudes Compared", *The Times Review of Industry and Technology*, December 1964, Vol. 2.

[3] Dichter, E., "The World Customer", *Harvard Business Review*, Vol. 40, No. 4, July/August 1962.

[4] Douglas, S. and Wind, Y., "Environmental Influences on Marketing Attitudes", working paper, May 1970.

[5] Drucker, P.F., *The Practice of Management*, New York: Harper & Row, 1954.

[6] Engel, J.F., Kollat, D.T. and Blackwell, R., *Consumer Behavior*, New York: Holt, Rinehart and Winston, Inc., 1968.

[7] Erickson, L.G., "Analyzing Brazilian Consumer Markets", M.S.U. *Business Topics*, Summer 1963.

[8] Fayerweather, J., *International Marketing*, Englewood Cliffs, N.J.: Prentice Hall, 1965.

[9] Frank, R.E., Massy, W.F. and Wind, Y., *Market Segmentation*, Prentice Hall, 1971.

[10] Hess, J.M. and Cateora, P.R., *International Marketing*, Homewood, Illinois: Richard D. Irwin, 1966.

[11] Kotler, P., *Marketing Management*, Englewood Cliffs, N.J.: Prentice Hall, 1967.

[12] Liander, B. (ed.), *Comparative Analysis for International Marketing*, Boston: Allyn & Bacon, Inc., 1967.

[13] Margulies, W.P., "Today's Marketers Need Global Identification", *Advertising Age*, 26 April 1965.

[14] Miracle, G.E. and Albaum, G.S., *International Marketing Management*, Homewood, Illinois: Richard D. Irwin, 1970.

[15] Nagashima, A., "A Comparison of Japanese and U.S. Attitudes Toward Foreign Products", *Journal of Marketing*, Vol. 34, No. 1, January 1970.

[16] Patty, R.C. and Vredenburg, H.L. (eds.), *Readings in Global Marketing Management*, New York: Appleton Century Crofts, 1969.

[17] Robinson, J., *The Economics of Imperfect Competition*, London: Macmillan, 1933.

[18] Ryans, J.K. and Baker, J.C. (eds.), *World Marketing*, New York: John Wiley & Sons, 1967.

[19] Schooler, R.D., "Product Bias in the Central American Common Market", *Journal of Marketing Research*, Vol. II, No. 4, November 1965.

[20] Sommer, S. and Kernan, B., "Why Products Flourish Here, Fizzle There", *Columbia Journal of World Business*, Vol. 2, March–April 1967.

[21] Spindler, G.D., "American Character Structure as Revealed by the Military", *Psychiatry* II, 1948.

[22] Stewart, C.F., "The Changing Middle East Market", *Journal of Marketing*, January 1961.

[23] Thomas, M.J. (ed.), *International Marketing Management*, New York: Houghton Mifflin, 1963.

[24] Wadia, M.S., "The Concept of Culture", *Journal of Retailing*, Vol. XLI, Spring 1965.

[25] Williams, S., "Negotiating Investment in Emerging Countries", *Harvard Business Review*, January–February 1965.

[26] Wind, Y., "Cross Cultural Analysis of Consumer Behavior", in R. Moyer, ed. *Changing Marketing Systems*, Proceedings of A.M.A. Conference, Winter 1967.

[27] Wind, Y., "Enduring vs. Situation Specific Characteristics as Bases for Market Segmentation", A.M.A. Conference, Fall 1970.

[28] Winick, C., "Anthropology's Contributions to Marketing", *Journal of Marketing*, July 1961.

[29] Zucker, P.B., "Public Relations as an International Marketing Tool", *International Trade Review*, February 1963.