Why we segment

By Niraj Dawar

At the heart of everything that marketers do resides a notion so fundamental, so basic, it is the engine that makes the free market tick.
This notion is, of course, that every customer is different.
Few have said it better than Monty Python in Life of Brian

Segmentation is the idea that if every customer is different, then business should address them differently, with different products, through different distribution channels, at different prices, and with different messages.
When I was a child (in the same decade that Life of Brian was made), I lived in a land without marketing, without brands, and where segmentation was a foreign notion. I lived on the grey side of the wall for almost four years. In Poland.

The implicit assumption made by the apparatchiks who ran Poland's communist economy was that all customers are the same. Product differences, brand differentiation, and variety were unnecessary — they merely added to costs and detracted from efficiency.
So everyone wore the same limited range of clothes available at the government-owned store, ate the same limited variety of foods (sometimes) available at the grocery, and drank the same plentiful brand of vodka.

It was not that the factory managers and bureaucrats making production decisionsunder communism were evil. But they simply had very little incentive to seek out consumer needs and respond to them. There was no reason for them to ask what consumers wanted, why they might want to buy, and at what price, and where. There was no competition, no measure of profitability, and no reason to bother asking customers, no market research. As a result, customer needs went unfulfilled andmarkets performed far below their potential.

In 1967, a few years before I got to Poland, the state-owned auto maker FSO introduced a re-badged Italian car – the snazzy Fiat 125 (posing at right). It immediately sparked a ten year waiting list which scarcely diminished until production ended in 1991 after the 1,444,791th one had left the factory. But even the waiting list did not clue the producers in to the latent demand for cars, or differentiated cars – in fact, quite the opposite.Offering a segmented range might have spurred demand and triggered production, revving the economy, and raising living standards. But if you'd suggested segmentation, you'd have been deemed certifiable: why would you want to spur demand when you had a 10-year waiting list?!?To the aparatchiks the ten year waiting list was proof, if proof was ever needed, that they were making a product that customers really, really wanted.

The igniting spark of segmentation was missing, and they never had a clue it was missing.

In a competitive market every producer and every seller has an incentive to find out what makes each of their customers different – to find out what they want to buy, why the want to buy it, when, where, and at what price.

Today, market segmentation is a pervasive exercise in most businesses. Still, we could do a lot better on both the 'why' and the 'how' of segmentation. This is the first of many posts on segmentation. We'll come back at regular intervals of a few weeks to take deeper dives into segmentation from a variety of angles.

In the meantime, don't forget to ask why customers buy, and remember that they are all different. The free market is counting on you.

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