Research Paper

Segmenting the Indian Cosmetic Markets -A Cluster Analysis Approach

Management

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ABSTRACT

The increasing mass media and more penetration level of the fashion world have dramatically changed the way of life of a common man. The Indians are becoming more and more beauty conscious with this increasing trend. With the entry of more market players in cosmetic industries, the men and women of later age group are also seen to be choosy for the cosmetic products. The easy availability of cosmetics has made it possible. Increasing awareness and advertisement with celebrity endorsement created the ground for the cosmetic industries to capture both the rural and urban market. It is very natural that the people with different mind set-up have the different choices and preferences for the cosmetic products. Even, the preference of an individual to the same cosmetic product changes with the time and age. It is felt necessary to group the people of like minds. Thus the segmentation of the cosmetic market is the need of the hour. The paper focuses on Customer segmentation of the Indian Cosmetic Markets. An earnest attempt is made to segment the market with randomly selected sample of size 264 from the city Bhubaneswar, Odisha.

Introduction

India's FMCG sector is the one of the largest sectors in the economy and creates the opportunity for employment at extensive rate. Its principal constituent is personal care products and among these the cosmetic products occupy the prime place. People are becoming aware about personal grooming with the usage of cosmetics and its products. With increasing consumerism and fashion consciousness, Indian cosmetics industry has witnessed strong growth during the past few years. Recent growth is fuelled by positive changes in consumer spending habits, the increasing influence of media and western exposure. The market leaders are providing the value added products such as fairness cream with age miracle; shampoo with conditioning; hair color with herbal intact etc. to grab the market.

Marketing not based on segmentation is essentially inefficient because some segments get over engineered and some segments get underestimated. Market segmentation is the idea of splitting the potential customers within a market into different segments. It is a method for classifying variables into clusters. A cluster consists of variables that have high correlation with one another and comparatively low correlation with the variables in other clusters. The purpose of the cluster analysis is to find out a number of disjoint clusters based on the similarities of profiles among the entities. Cluster analysis is useful for segmenting the market for a product on the basis of the various characteristics of the customers. The particular research has been undertaken to segment the Indian cosmetic market to the groups of like-minded people. Multivariate analysis technique of K-means clustering method has been used for this purpose.

Indian Cosmetic Market

India has become a high-growth market for cosmetics over the last few years and Indian consumers today are richer, younger and more aspirational with variety of products offered by leading players. The Indian cosmetic market is dominated by female consumers, but with the advent of men's grooming products the male are also becoming more beauty conscious. Traditionally, Indian cosmetic sector has been characterized by the presence of large number of small –unorganized sectors. However, over the last half decade, the Indian cosmetic market has seen a significant growth of various cosmetic segments such as hair Care, skin care, fragrance, make-up, others etc.

Table-1: Cosmetic Segments

Cosmetic Segments	Products	Market Share
Hair Care	Shampoos, conditioners, styling products, hair color, etc.	20%
Skin Care	Skin moisturizers, cleansers, facial products, anti-aging products etc.	27%
Fragrance	Perfume, Essence, deodorants, etc.	10%
Make-up	Lipstick, nail polish, blush, eye shadow, foundation, etc.	20%
Other	Toothpaste, sunscreens and other personal care products etc.	23%

Indian cosmetic industry has emerged as one of the fastest growing industries holding huge potential for further growth with more beauty conscious male and female, increasing disposable income and product availability. Owing to the rising beauty concerns of both men and women, the Indian cosmetic industry is expected to grow at the rate 18% during 2013-2014.

Segmenting the Consumer Markets

Market segmentation was not coined until the later part of 1950s. Since then, it has had a major impact on marketing. It is based on the observation that all potential customers are not identical and that a firm should develop the different marketing progammes for different groups of people. The purpose of segmentation is the concentration of marketing force on the subdivision to gain a competitive advantage within the segment. Segmentation provides the basis for selection of the target markets. Customers in the target market have similar characteristics and a single marketing mix can be used to serve them. Segmentation allows grouping of customers based on similarities and helps the marketers to understand the requirements of segments that meet their needs. It promotes the idea of customer satisfaction by viewing markets as per the requirement of the customers.

Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of the differences in buyer behavior. There are three broad categories of consumer segmentation criteria.

→ Behavioural variables such as benefits sought from the product and buying patterns such as frequency and the volume of purchase may be considered as the fundamental basis.
→ Psychographic variables are used when purchasing behavior is correlated with the personality or life style of the consumers. Consumers with different personalities or life styles have varying product preferences and may respond differently to the marketing mix offerings.
→ Profile variables are valuable in describing the customers of the identified group. The objective of profiling is to identify and locate the customers age wise, socio-economic group wise etc. so that they can be approached by the marketers easily.

Purpose of the Study

The main purpose of the paper is to segment the Indian cosmetic consumer market into the groups of similar characteristics known as Cluster. Thus the customers included in different clusters can be served separately as per their choice and requirement.

Theoretical frame work of Cluster Analysis

An SPSS statistical package, K-means clustering has been used, for clustering 264 randomly selected respondents on the basis of their similarities in their preferences for the cosmetic products. Particularly hierarchical clustering method is used to find out the number of clusters first and then K-means clustering method is used to give the output. The method of clustering is based on commonly used Eucledian distance measure program.

The sample consists of men and women of the different age groups of the city Bhubaneswar, Odisha. The selected sample is explored to fifteen attributes (as tabulated below) on five point scale. Where 1 indicates the most favourable and 5 indicates the most unfavourable attitude.

Table-2: Final Cluster Centers

	1	2	3
X1 = Price	4.7647	1.444	1.666
X2 = Availability	2.117	2.02	2.066
X3 = Recommendation	3.882	3.12	2.23
X4 = Brand name	1.29	3.555	1.866
X5 = Promotional offer	4.82	4.98	2.133
X6 = Dealer's knowledge	4.176	1.111	2.266
X7 = Variety	2.117	2.014	1.81
X8 = Refund Policy	4.764	2.8889	2.466
X9 = Current trend	2.13	4.25	4.533
X10 = New in the market	2.058	4.333	4.3333
X11 = Packaging	4.647	1.01	3.42
X12 = Advertising	1.02	2.02	3.81
X13 = Herbal contacts	1.941	3.01	2.2666
X14 = Fragrance	4.176	3.333	3.1333
X15 = Celebrity Endorsement	2.235	4.87	4.466

Cluster Interpretation

As observed from table-2, three clusters are identified in terms of final cluster centres. These clusters describe the mean value of each variable for the clusters.

Cluster-1 (N=102)

People belonging to this group are not giving importance to packaging of the product. They are less price conscious and less affected by any promotional offer, dealer's knowledge and neutral to any recommendation. The people of this group do not bother about any refund policy. But, availability of the cosmetic product, variety and current trend are important for them. The people of this group are more conscious about the brand and its herbal contacts and advertisement prefer to the current trend and any new product in the market. The people are also affected by advertisement and celebrity endorsement.

This group is more beauty conscious and trendy, get affected easily by the advertisement and celebrity endorsement.

Cluster-2 (N=71)

This cluster of individuals is more inclined to packaging and advertising. The people of this group feel variety and availability of the cosmetic products as the prime factors of choosing any cosmetic product. They give value to money and refund policy schemes. They also want to keep the record about the dealer of the product. The people belonging to this group are neutral to any recommendation, brand name and herbal contact. Celebrity endorsement, current trend and promotional offer cannot attract these people.

This group of people holds mixed type of beauty conscious and gives more importance to money value.

Cluster-3 (N=91)

This cluster may be viewed as the group of people not influenced by current trend. New product in the market cannot influence the people to buy the product. They give least preference to celebrity endorsement. The people of this group show neutral attitude towards advertisement, fragrance and packaging. The people of this group have likings towards the cosmetic products with herbal contact. They are attracted by promotional offer of the products, the refund policy and recommendation. They give importance to the brand name, price and the variety of the products.

These groups of people are typical traditional people and value conscious, they value for money as well as the product quality.

Table-3: ANOVA

	Cluster		Error		F	Sig.
	Mean Square	d. f	Mean Square	d. f		
X1 = Price	103.380	2	0.668	161	154.828	0.008
X2 = Availability	2.732	2	0.914	161	2.990	0.053
X3 = Recommendation	30.378	2	1.379	161	22.029	0.001
X4 = Brand name	5.458	2	1.997	161	2.734	0.068
X5 = Promotional offer	19.751	2	1.972	161	10.017	0.000
X6 = Dealer's knowledge	64.692	2	0.605	161	106.863	0.000
X7 = Variety	261.148	2	1.024	161	255.057	0.001
X8 = Refund Policy	68.656	2	1.086	161	63.196	0.000
X9 = Current trend	0.335	2	1.715	161	0.195	0.823
X10 = New in the market	19.348	2	1.319	161	14.665	0.002
X11 = Packaging	72.222	2	1.243	161	58.106	0.000
X12 = Advertising	87.691	2	1.125	161	77.945	0.003
X13 = Herbal contacts	39.556	2	1.133	161	34.905	0.000
X14 = Fragrance	32.274	2	1.177	161	27.420	0.004
X15 = Celebrity Endorsement	66.053	2	1.455	161	45.382	0.000

The ANOVA table tells us which of the fifteen variables is significantly different across the three clusters. The variables X2, X4, and X9 are not significant at 5% as they have the probability values more than 0.05. The other variables are statistically significant.

Table-5: Number of Cases in each Cluster

Cluster	1	102.000
	2	71.000
	3	91.000
Valid		264
Missing		

Conclusion

Segmentation involves identification of groups of individuals that have significant implications for determination of the marketing strategy. The objective of cosmetic market segmentation is to identify the group of customers with similar requirements so that they can be served effectively. It is the basis by which the marketers understand the strategies for serving their chosen customers better than competition. The customers included in each segment possess the similar requirement satisfied by a distinct marketing mix.

Thus the paper identifies three significant clusters:

Cluster-1: More beauty conscious and trendy
Cluster -2: Mixed type of beauty conscious and gives more importance to money value

Cluster-3: Traditional people and value conscious
The cosmetic market leaders should reevaluate their marketing strategies keeping in mind these three significant segments.

Caution of using K-means Clustering
The method of cluster analysis is ideally suited to interval scaled variables. But the nominal and ordinal data can be used after standardizing the data appropriately. A general caution about cluster analysis itself is that it results with different methods and some methods are quite vulnerable to errors in data. So, the stability of the clusters should be checked by repeating the cluster analysis. Cluster analysis is useful for segmenting the market for a product on the basis of the various characteristics of the customers

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