CONSTRUCTING A SOPHISTICATION INDEX AS A METHOD OF MARKET SEGMENTATION OF COMMERCIAL FARMING BUSINESSES IN SOUTH AFRICA

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DECLARATION

I declare that this is my own unaided work, and that it has not been submitted to another university for any degree.

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Signature                      Date
ABSTRACT

This study investigates the process of index construction as a means of measuring a hypothetical construct that can typically not be measured by a single question or item in a survey study and applying it as a method of market segmentation. The availability of incidental secondary data that were gathered during 2009 provides a relevant quantitative basis to illustrate this process by constructing a commercial farming sophistication index for South Africa.

A multi-step approach was followed for the construction of the commercial farming sophistication index, namely: (1) Selection of items and definition of variables that are most likely to be indicators of commercial farming sophistication; (2) combining of variables into an index; and (3) segmentation and index validation.

Following the investigation and illustration of the process of index construction as a method of market segmentation, it was evident that this approach offers an appropriate and useful means of segmenting a market. Several factors contribute to the appeal of this approach. Amongst other, it contributes towards addressing important priorities in the area of future segmentation research, namely that of investigating the application of new base variables into segmentation models, as well as investigating new segmentation strategies. The approach also applies a creative process of combining several base variables into a single measure, namely that of an index variable. By offering classification rules based on characteristics that can easily be observed or elicited by asking a few key questions, new or potential buyers can be grouped by buying behaviour segment.

Furthermore, the multi-step process that was employed has pragmatic appeal for researcher, and provides a systematic and structured multivariate approach to segmentation. It also facilitates replication of the process when conducting future studies.
By using an index, it takes advantage of any intensity structure that may exist among attributes. This has the advantage that it places members of the market on a continuum that can lead to tracking members’ development paths as they progress towards higher levels on the index.

Furthermore, illustration of the process has significant application value in other business-to-business markets, locally and internationally, where index variables can be constructed from both primary and secondary sources and used as a method of segmentation following a similar multi-step approach proposed in this study.

Lastly, the outcome of this type of segmentation method offers researchers and marketing practitioners a procedure, in the form of an equation, to calculate index scores and provide rules to segment the market based on predefined intervals. Hence, the challenge to replicate segment formation across independent future studies is addressed. This process is considered an advantage over employing a technique such as cluster analysis, where the use of new data or changes to the clustering algorithm often leads to different segment solutions.

Keywords: Segmentation, index construction, commercial farming, business sophistication
# TABLE OF CONTENTS

ACKNOWLEDGEMENTS ........................................................................................................ II

DECLARATION .................................................................................................................. III

ABSTRACT ...................................................................................................................... IV

TABLE OF CONTENTS ..................................................................................................... VI

LIST OF TABLES .............................................................................................................. XII

LIST OF FIGURES .......................................................................................................... XIII

LIST OF EQUATIONS .................................................................................................. XIV

CHAPTER 1: INTRODUCTION ............................................................................................ 1
  1.1 BACKGROUND ........................................................................................................... 1
  1.2 PROBLEM STATEMENT .......................................................................................... 3
  1.3 PURPOSE STATEMENT ......................................................................................... 4
  1.4 RESEARCH OBJECTIVES ..................................................................................... 5
  1.5 IMPORTANCE AND BENEFITS OF THE STUDY .................................................. 5
  1.6 RESEARCH RESOURCES AND METHODS ......................................................... 7
  1.7 STUDY DELIMITATIONS AND ASSUMPTIONS .................................................. 8
    1.7.1 Delimitations ..................................................................................................... 8
    1.7.2 Assumptions .................................................................................................... 9
  1.8 DEFINITION OF KEY TERMS ............................................................................. 10
  1.9 STRUCTURE OF THE THESIS ............................................................................. 12

CHAPTER 2: MARKET SEGMENTATION ......................................................................... 13
  2.1 INTRODUCTION ...................................................................................................... 13
  2.2 MARKET SEGMENTATION AS PART OF MARKETING MANAGEMENT ............... 13
2.3 DEFINING MARKET SEGMENTATION .......................................................... 15
2.4 THE MARKET SEGMENTATION PROCESS ........................................... 18
   2.4.1 Defining the purpose of market segmentation ............................. 26
   2.4.2 Defining the market .................................................................. 28
   2.4.3 Selection of segmentation variables ........................................ 29
   2.4.4 Selection of a segmentation approach ......................................... 30
      2.4.4.1 A-priori segmentation .......................................................... 30
      2.4.4.2 Cluster-based segmentation ............................................... 31
      2.4.4.3 Sequential segmentation method ........................................ 33
   2.4.5 Determination of the research design ......................................... 34
   2.4.6 Identifying units of analysis ..................................................... 36
   2.4.7 Sampling design ..................................................................... 37
   2.4.8 The data collection .................................................................. 38
      2.4.8.1 Secondary data .................................................................. 38
      2.4.8.2 Primary data ...................................................................... 40
   2.4.9 Segment identification method selection ...................................... 40
      2.4.9.1 Cluster analysis ................................................................. 42
      2.4.9.2 Classification trees ............................................................. 43
      2.4.9.3 Discriminant analysis ......................................................... 43
      2.4.9.4 Logistic regression .............................................................. 44
      2.4.9.5 Multidimensional scaling .................................................... 44
      2.4.9.6 A note on the use of multivariate statistical analysis techniques 45
   2.4.10 Target segment selection .......................................................... 46
   2.4.11 Positioning .............................................................................. 47
2.5 THE PURPOSE AND ANTECEDENTS OF MARKET SEGMENTATION ...................... 48
   2.5.1 Homogenising market heterogeneity ....................................... 48
   2.5.2 Improved understanding of buyers .......................................... 49
   2.5.3 The identification of new opportunities .................................... 50
   2.5.4 The allocation of resources ...................................................... 50
   2.5.5 Improved business performance and competitive advantage ...... 52
2.6 THE KEY SUCCESS FACTORS OF MARKET SEGMENTATION .... 52
3.4.1.1 Background .................................................................................... 83
3.4.1.2 Steps in the index construction ....................................................... 84
3.4.1.3 Outcomes of original analysis and further development .................. 86
3.4.2 The New Zealand Economic Living Standard Index (ELSI scale) ................................................................. 94
3.4.2.1 Background .................................................................................... 94
3.4.2.2 Steps in the index construction ....................................................... 95
3.4.2.3 Outcomes of original analysis and further development ........... 103
3.4.3 The African Response Business Sophistication Measure......... 104
3.4.3.1 Background .................................................................................. 104
3.4.3.2 Steps in the index construction ..................................................... 104
3.4.3.3 Outcomes of original analysis and further development ........... 107
3.4.4 Key considerations in the construction of a commercial farming sophistication index and applying it as a method of segmentation ................................................................. 110
3.4.4.1 Broad aims and objectives envisaged for the construction of a specific index................................................................. 111
3.4.4.2 Assumptions and model ............................................................... 113
3.4.4.3 Steps, processes and methods employed for calculation of original index scores .................................................................................................. 114
3.4.4.4 Derivation of a general use form of the index scale .................. 115
3.4.4.5 Applying the index as a method of market segmentation .......... 115
3.4.4.6 Application value of index .......................................................... 115

3.5 CHAPTER SUMMARY ..................................................................... 116

CHAPTER 4: RESEARCH DESIGN AND METHODS .............................. 117

4.1 INTRODUCTION .............................................................................. 117

4.2 DESCRIPTION OF INQUIRY STRATEGY AND BROAD RESEARCH DESIGN ................................................................. 117
4.2.1 A description of the study’s strategy of inquiry ....................... 117
4.2.2 The basic characteristics of quantitative research .......... 118
4.2.3 A classification of the study’s overall research design .......... 118

4.3 SOURCE OF DATA ......................................................................... 119
4.3.1 Data gathering ............................................................... 120
4.3.2 Questionnaire design .................................................... 120
4.3.3 Question identification ................................................... 120

4.4 SAMPLING ........................................................................ 122
4.4.1 Units of analysis and units of observation ....................... 122
4.4.2 Sampling frame ............................................................... 123
4.4.3 Sample size required for index construction .................... 123

4.5 DATA ANALYSIS ............................................................... 124
4.5.1 Standardisation of measurement scales .......................... 124
4.5.2 Data analysis plan for constructing of the index ............... 124

4.6 ASSESSING AND DEMONSTRATING THE QUALITY AND
RIGOUR OF THE RESEARCH DESIGN .................................... 127
4.6.1 Quality of secondary data ............................................... 127
4.6.2 Reliability ................................................................. 129
4.6.3 Validity ................................................................. 130

4.7 ETHICAL CONSIDERATIONS ............................................. 131

4.8 CHAPTER SUMMARY ........................................................ 131

CHAPTER 5: RESEARCH RESULTS ........................................... 132

5.1 INTRODUCTION ............................................................. 132

5.2 INDEX CONSTRUCTION AND SEGMENTATION .............. 132
5.2.1 Step 1: Item selection and standardisation of measurement
scales .................................................................................... 132
5.2.2 Step 2: Combination of the variables into an index .......... 133
5.2.2.1 Step 2.1: First principal component analysis ............... 133
5.2.2.2 Step 2.2: Distilling of variables for further analysis ....... 136
5.2.2.3 Step 2.3: Second principal component analysis .......... 138
5.2.2.4 Step 2.4: Stepwise regression and deriving of the final index scores 140
5.2.3 Step 3: Segmentation and index validation ........................ 142
5.2.3.1 Step 3.1: Forming of segments .................................. 143
### LIST OF TABLES

Table 1: Acronyms used in this document .......................................................... 11  
Table 2: Bases for business-to-business segmentation .................................... 68  
Table 3: Measures of business sophistication .................................................... 69  
Table 4: Items considered in the construction of various business sophistication indexes ................................................................. 70  
Table 5: SAARF LSM list of variables 2012 (South African Advertising Research Foundation, 2012:36) ................................................................. 87  
Table 6: Calculation of LSM (South African Advertising Research Foundation, 2012:36) .................................................................................. 88  
Table 7: A profile of LSM segments (South African Advertising Research Foundation, 2012:53) ................................................................. 90  
Table 8: Items used for the development of a generic scale measuring living of standard of New Zealanders (Jensen et al., 2003:75)............... 99  
Table 9: Constraints in consumption experienced by New Zealand children by ELSI segments – Items not obtained or cut back because of cost (Jensen et al., 2003:75) ................................................................. 103  
Table 10: Frequency distribution of initial set of variables (n = 600).............. 133  
Table 11: Results from first principal component analysis - KMO measure of sampling adequacy and Bartlett’s test of sphericity ...................... 134  
Table 12: Results from first principal component analysis - Variance explained .................................................................................................... 135  
Table 13: Results from first principal component analysis – variables loading on first factor .................................................................................... 135  
Table 14: Percentage frequency distribution of initial set of variables by 10 banded groups (n = 600) ................................................................................. 137  
Table 15: Correlation analysis of initial set of variables by banded group – Spearman’s rho (n = 600) ................................................................................. 138
Table 16: Results from second principal component analysis - KMO measure of sampling adequacy and Bartlett’s test of sphericity ....................... 139
Table 17: Results from second principal component analysis - Variance explained .......................................................................................... 139
Table 18: Results from second principal component analysis – variables loading on first factor ..................................................................... 139
Table 19: Results from stepwise regression - Model summary ............ 140
Table 20: Results from stepwise regression - ANOVA .................................. 141
Table 21: Results from stepwise regression - Coefficients .................. 141
Table 22: Final estimated segment sizes (Weighted N = 39 000) .......... 145
Table 23: Distribution of selected index variables across segments (Weighted N = 39 000) ........................................................................ 146
Table 24: Distribution of selective firmographic variables across segments (Weighted N = 39 000) .................................................................. 149
Table 25: Distribution of selective demographic characteristics of main activate farmer across segments (Weighted N = 39 000) .................... 152
Table 26: Distribution of selective firmographic variables across segments derived from holdout sample (Weighted n = 276) ..................... 153
Table 27: Distribution of selective demographic characteristics of main activate farmer across segments derived from holdout sample (Weighted n = 276) ........................................................................ 154

LIST OF FIGURES

Figure 1: Eight stages along the segmentation, targeting and positioning phases (Cant et al., 2006:104) ......................................................... 19
Figure 2: A summary of the strategic segmentation process (Quinn et al., 2007:445) .......................................................... 20
Figure 3: Framework for business segmentation (Goller et al., 2002:254) ..... 21
Figure 4: The seven steps in the market segmentation process (McDonald & Dunbar, 2004:56) .................................................................................................................. 24

Figure 5: Area of potential for market segmentation (McDonald & Dunbar, 2004:49) .................................................................................................................. 25

Figure 6: Percentage cell-phone penetration in South Africa December 2011 (South African Advertising Research Foundation, 2012:47) .............. 89

Figure 7: Conceptual model of generic living standards scale for New Zealand (Jensen et al., 2002:61) ......................................................................................... 97

Figure 8: Business bank account penetration in South African small businesses – FinScope Study 2006 (African Response, 2006:64) 108

Figure 9: Process showing collapsing of 25 groups to form a final set of five market segments........................................................................................................... 144

LIST OF EQUATIONS

Equation 1: Calculation of commercial farming sophistication index scores 142