

# Market Segmentation

In any market, no two customers are exactly alike, they will have different incomes, different desires, different outlooks on life, etc. So in theory each market could be broken down - segmented, into individuals. But doing this creates a problem - how can firms design and produce differing products for each of these individuals?

The answer is of course that they cannot. So given that firms cannot produce individually tailored products (except in rare and specific cases - job production), what can they do to ensure that products are best suited to the market? The solution is to divide the market into segments (sub-groups) that have common features, or are made up of individuals that make purchasing decisions based on common factors and then when this is done, produce and market products aimed at each of these segments.

But there is still a problem, even if firms can identify separate market segments, the segments have to be structured so that selling to them is profitable. For example, there is no point in identifying and then targeting a sub-group within the car market, that expects to spend around £10,000 on a new car, needs 7 seats, air conditioning, satellite navigation and makes purchasing decisions based on brand. After all it is very unlikely that this segment of the car market will be profitable.

**So what rules must be applied to market segmentation, to make targeting segments worthwhile?**

- Segments must be recognisable. They

must be different enough from other segments, to make producing for that segment worthwhile. For example housing is built for: singles - flats, young couples - two bedroom houses and starter homes, families - 3 or 4 bed houses, retired people -bungalows.

- Segments must have critical mass. This means that they must be big enough or produce enough sales value to make production of products or services targeted at the segment worthwhile. The market for 2 seater sports cars has grown rapidly in recent years making the segment attractive, not only to niche market firms such as Lotus or TVR, but also mass market firms like, Toyota, Honda, Nissan etc.
- Segments must be targetable. Having their own identity means that they can be promoted to, and have marketing directed towards them. On day-time TV, there are many adverts for Retirement Plans, or Funeral Expenses plans, often sold in a reassuring but concerned manner. They are targeted at a segment which is aware of the potential problems of costly funeral expenses, or leaving a loved one without financial support.

We see then that segments must have three features to make targeting them worthwhile. They must be **recognisable, have critical mass, and be targetable**. But how do we divide the market into potentially profitable segments?

**Methods of market segmentation.**

Potentially markets can be segmented in any number of ways, but to keep things relatively simple we will examine four broad methods that establish for a firm's marketing department the most important differences between customer groups.

**Geographic segmentation**—where do customers live, where do they purchase goods and services? Also considers population density and how fast population is growing.

**Demographic segmentation**—here groups are based on age, sex, ethnic background, occupation, and income.

**Behavioural segmentation**—less obvious than the two methods above, this method is based on recognising groups with different usage patterns, levels of brand loyalty, and differing levels of price and advertising elasticity of demand

**Psychographic segmentation**—lifestyle groups, personal values, and attitudes.

We now know the basic rules of segmentation, segments must: **be recognisable, have critical mass, and be targetable**, and we know how to segment through the **Geographic, Demographic, Behavioural, and Psychographic Segmentation**.

Once the market is examined in this way, firms are able to start thinking of how best to

market their products. Segmentation is then the start of the marketing process. But like all elements of marketing, market segmenta-

tion is not static, segments grow and shrink, they become profitable, the profitability may diminish. Firms must ensure that they maintain an understanding of the needs and desires of the customers in each segment, and learn how to target each segment effectively.

## Reasons for market segmentation.

A segment-orientated marketing approach generally offers a range of advantages for both businesses and customers.

### Targeted Marketing

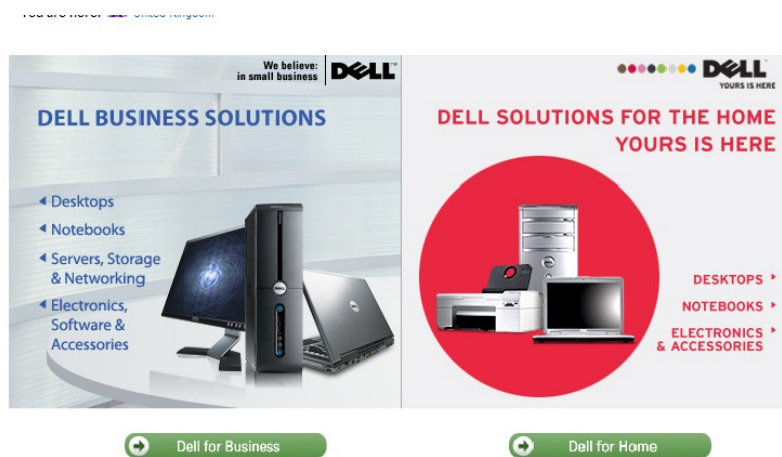
Targeted marketing allows the firm stress those product features that are most relevant for each particular segment (e.g. price vs. quality vs. brand identity), through its marketing. This targeting will occur even if the product being sold to different segments is identical.

### Better serving customers needs and wants

It is possible to satisfy a variety of different customer needs with a limited product range by using variations in product forms, bundles, incentives and promotional activities. For example Dell organizes its website by customer

groups (individuals, small businesses, large businesses, government organizations), and not through product groups such as laptops, desktops servers etc. They offer the same products to all customer groups.

Nevertheless, they suggest product bundles and supporting services that are individually tailored for the needs of each particular



group. As an example, Dell offers to take on all IT-administration for companies. This service provides a huge potential for savings for corporate customers. Segment-specific product bundles increase chances for cross selling.

### **Higher Profits**

It is often difficult to increase prices for the whole market. But it is possible to develop premium segments in which customers accept a higher price level. Such segments could be distinguished from the mass market by features like additional services, exclusive points of sale, product variations and the like. A typical segment-based price variation is by region. The generally higher price level in big cities charged by firms such as Starbucks and McDonalds is clear evidence of this.

### **Opportunities for Growth**

Targeted marketing plans for particular segments allows firms to individually approach customer groups that otherwise would look out for specialized niche marketing firms. By segmenting markets, businesses can create their own 'niche products' and thus attract additional customer groups.

### **Sustainable customer relationships in all phases of customer life cycle.**

Customers change their preferences and patterns of behavior over time (the customer life cycle). Firms that serve different segments along a customer's life cycle can lead their customers from stage to stage by always offering them a special solution for their particular needs.

For example, most car manufacturers offer a product range that caters for the needs of all phases of a customer life cycle: first car for students/ young workers, fun-car for

young professionals, family car for young families, SUV for growing families etc. Skin care cosmetics brands often offer a branded series of products for babies, teens, young adults, mums, and more mature skin.

### **Stimulating Innovation**

Segmentation provides information about small groups in the total market that share particular needs. The identification of these needs enables a planned development of new or improved products that better meet the wishes of these customer groups. Recognizing new, growing markets that are developing from small segments can drive innovation within firms.

### **Higher Market Share**

By targeting segments through the use of niche strategies, the total share of the market held by the firm will increase. The segment orientated strategy also strengthens the brand and ensures profitability.

### **Notes.**