M. COM. SEM. - II

MC 202: Marketing Management

Dr. Dilip Kumar Karak

(M) 9433307384

dilipkumar.karak@yahoo.in

MARKET SEGMENTATION

The basic aim of market segmentation is to identify the varying and specific needs of different types of customers so that appropriate mix of products/services may be designed and offered to satisfy different types of customers. In this age of intense competition for the mass market, individual sellers can prosper by serving specific market segments in a creative manner.

Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations.

The process of dividing the total heterogeneous market for a product or service into sub-markets or segments, each of them being homogeneous in all significant aspects, is known as market segmentation. According to William Station, market segmentation is, "the process of taking the total heterogeneous market for a product or service and dividing it into several markets or segments, each of which tends to be homogeneous in all significant respects." For example, the total market for ready-made garments may be divided into segments like kids, teenagers, ladies and gents.

Why is market segmentation important for marketers?

Market segmentation makes it easier for marketers to personalize their marketing campaigns.

By arranging their company's target market into segmented groups, rather than targeting each potential customer individually, marketers can be more efficient with their time, money, and other resources than if they were targeting consumers on an individual level. Grouping similar consumers together allows marketers to target specific audiences in a cost effective manner.

Market segmentation also reduces the risk of an unsuccessful or ineffective marketing campaign. When marketers divide a market based on key characteristics and personalize their strategies based on that information, there is a much higher chance of success than if they were to create a generic campaign and try to implement it across all segments.

Marketers can also us segmentation to prioritize their target audiences. If segmentation shows that some consumers would be more likely to buy a product than others, marketers can better allocate their attention and resources.

The process of market segmentation involves the following steps:

(i) Identify the total market (those who buy or may be induced to buy the product or service under consideration).
(ii) Divide the total market into its major sub-markets or segments.
(iii) Estimate the sales potential and profit potential for each sub-market.
(iv) Determine the unique characteristics and requirements of each sub-market.
(v) Select one or more segments on which the firm will focus on serving.

Market Segmentation: Top 10 Benefits of Market Segmentation

The top ten benefits of market segmentation are as follows:

1. Determining market opportunities

2. Adjustments in marketing appeals

3. Developing marketing programmes

4. Designing a product

5. Media selection

6. Timing of marketing efforts

7. Efficient use of resources

8. Better service to customers

9. Helps in fixing prices

10. Assist in distribution strategies

Segmentation of target markets has several advantages.

1. Determining market opportunities:

Market segmentation enables to identify market opportunities. The marketer can study the needs of each segment in the light of current offerings by the competitors. From such study, the marketer can find out the current satisfaction of customers.

Segments with low level of satisfaction from present offering may represent excellent market opportunities. For example, customers may not be satisfied with the current offering of water purifiers in terms of product or after-sale service. Such situation enables a marketer to launch a new range of water purifiers and market them well.

2. Adjustments in marketing appeals:

Sellers can make best possible adjustments of their product and marketing appeals. Instead of one marketing programme aimed to draw in all potential buyers, sellers can create separate marketing programmes designed to satisfy the needs of different customers. Proper advertising and sales promotional appeals can be made depending on the target audience.

3. Developing marketing programmes:

Companies can develop marketing programmes and budgets based on a clearer idea of the response characteristics of specific market segments. They can budget funds to different segments depending on their buying response.

4. Designing a product:

Market segmentation helps in designing products that really match the demands of the target audience. Products with high market potential can be designed and directed to meet the satisfaction of the target market.

5. Media selection:

It helps in selection of advertising media more intelligently and in allocating funds to various media. The funds are allocated to various media depending on the target audience, impact of the media, competitor advertising, and so on.

6. Timing of marketing efforts:

It helps in setting the timings of the promotional efforts so that more emphasis is placed during those periods when response is likely to be at its peak. For instance, consumer goods can be heavily advertised to Christians during Christmas season and to Hindus during Diwali time.

7. Efficient use of resources:

By tailoring marketing programme to individual market segments, management can do a better marketing job and make more efficient use of the marketing resources. For example, a small firm can effectively use its limited resources – money, sales force, etc. – in one or two segmented markets rather than unsuccessfully aiming at a wider market.

8. Better service to customers:

Market segmentation enables a company to concentrate its marketing efforts in a particular market area, thereby, providing a better service to the target customers. Proper marketing segmentation can facilitate customer satisfaction.

9. Helps in fixing prices:

The marketing segmentation also enables to fix prices of the goods and services. Since different market segments have different price perceptions, it is necessary to adopt different pricing strategies for the markets. For instance, the prices for lower-income groups have to be lower and the product and promotional efforts are adjusted accordingly.

10. Assist in distribution strategies:

Segmentation also assists in adopting suitable distribution strategies. Different market segments may require different distribution mix. For example, if the product is of very high quality intended to target the upper class, then it must be distributed at prestigious outlets located at selective places.

The Four Types of Market Segmentation

The four bases of market segmentation are:

- Demographic segmentation
- Psychographic segmentation
- Behavioral segmentation
- Geographic segmentation

Within each of these types of market segmentation, multiple sub-categories further classify audiences and customers.

Demographic Segmentation

Demographic segmentation is one of the most popular and commonly used types of market segmentation. It refers to statistical data about a group of people.

Demographic Market Segmentation Examples

- Age
- Gender
- Income
- Location

- Family Situation
- Annual Income
- Education
- Ethnicity

Where the above examples are helpful for segmenting B2C audiences, a business might use the following to classify a B2B audience:

- Company size
- Industry
- Job function

Psychographic Segmentation

Psychographic segmentation categorizes audiences and customers by factors that relate to their personalities and characteristics.

Psychographic Market Segmentation Examples

- Personality traits
- Values
- Attitudes
- Interests
- Lifestyles
- Psychological influences
- Subconscious and conscious beliefs
- Motivations
- Priorities

Psychographic segmentation factors are slightly more difficult to identify than demographics because they are subjective. They are not data-focused and require research to uncover and understand.

Behavioral Segmentation

While demographic and psychographic segmentation focus on who a customer is, behavioral segmentation focuses on how the customer acts.

Behavioral Market Segmentation Examples

- Purchasing habits
- Spending habits
- User status
- Brand interactions

Behavioral segmentation requires you to know about your customer's actions. These activities may relate to how a customer interacts with your brand or to other activities that happen away from your brand.

Geographic Segmentation

Geographic segmentation is the simplest type of market segmentation. It categorizes customers based on geographic borders.

Geographic Market Segmentation Examples

- ZIP code
- City
- Country
- Radius around a certain location
- Climate
- Urban or rural

Geographic segmentation can refer to a defined geographic boundary (such as a city or ZIP code) or type of area (such as the size of city or type of climate).

The following factors for forming the market segments to be consider

i. Response differences

ii. Accessible segments

iii. Actionable groups

iv. Cost-benefit implications

v. Stability of the segment over time

vi. Homogenous consumer groups

vii. Market information availability

viii. Perceptual mapping

ix. Cluster response

Targeting Market Segments:

The firm never has sufficient resources/capabilities to address all segments in a market; it must decide where to place efforts. Some segments receive greater effort/resources; some segments receive little or none. Effective targeting better addresses customer needs, minimizes competition. The firm should implement the Principle of Selectivity and Concentration.

Carefully choose targets for effort.

Concentrate resources on those targets.

Example- International document and package delivery firm DHL used successive approaches in targeting three customer need segments:

i. Ad hoc — small irregular shippers/occasional buyers.

ii. Regular — high-volume shippers not requiring supply-chain solutions.

iii. Advantage — shippers requiring a supply-chain solution.

The Advantage segment was attractive- Required DHL supply-chain solutions; offered high revenue/ profit potential; good partnership possibilities. DHL selected 10 industry segments where it could offer industry-specific knowledge, solutions. DHL focused effort on specific firms in those industries.

Multifactor Matrix Approach to Targeting (Strategic Position Analysis):

This approach helps the firm decide which market segments to target.

For each candidate segment, the firm must answer two questions:

i. How attractive is this segment?
ii. Does the firm have business strengths to win in this segment?

Using the market attractiveness/business strengths framework requires careful attention to two sets of criteria:

i. **Market-Segment Attractiveness:**

Factors that make market segments attractive differ from firm to firm. For an individual business, factors chosen should remain constant over the planning horizon, but may differ from business to business.

ii. **Business Strengths:**

What any competitor would need to be successful in the segment. Business strengths required to win differ from market segment to market segment. The market-segment-attractiveness/business-strengths analysis is a useful tool to create a one-time snapshot. Both market segments and firm strengths evolve; hence, the firm should update periodically.