

## **5 MARKET SEGMENTATION**

**5.1 DEFINITION OF THE MARKET SEGMENTATION:** **Market segmentation** is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs and priorities, and then designing and implementing strategies to target them. Market segmentation strategies may be used to identify the target customers, and provide supporting data for positioning to achieve a marketing plan objective. Businesses may develop product differentiation strategies, or an undifferentiated approach, involving specific products or product lines depending on the specific demand and attributes of the target segment.

The purpose for segmenting a market is to allow your marketing/sales program to focus on the subset of prospects that are "most likely" to purchase your offering. If done properly this will help to insure the highest return for your marketing/sales expenditures. Depending on whether you are selling your offering to individual consumers or a business, there are definite differences in what you will consider when defining market segments.

### **Category of Need**

The first thing you can establish is a category of need that your offering satisfies. The following classifications may help.

#### **For businesses:**

- **Strategic** - your offering is in some way important to the enterprise mission, objectives and operational oversight. For example, a service that helped evaluate capital investment opportunities would fall into this domain of influence. The purchase decision for this category of offering will be made by the prospect's top level executive management.
- **Operations** - your offering affects the general operating policies and procedures. Examples might be, an employee insurance plan or a corporate wide communications system. This purchase decision will be made by the prospect's top level operations management.
- **Functional** - your offering deals with a specific function within the enterprise such as data processing, accounting, human resources, plant maintenance, engineering design, manufacturing, inventory control, etc. This is the most likely domain for a product or service, but you must recognize that the other domains may also get involved if the purchase of the product or service

becomes a high profile decision. This purchase decision will be made by the prospect's functional management.

### **For the individual consumer:**

- Social Esteem or Pleasure - your offering satisfies a purely emotional need in the consumer. Examples are a mink coat or a diamond ring. There are some products that are on the boundary between this category and the Functional category such as a Rolex watch (a Timex would satisfy the functional requirement and probably keep time just as well).
- Functional - your offering meets a functional requirement of the consumer such as a broom, breakfast cereal or lawnmower.

### **Criteria for segmenting**

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An ideal market segment meets all of the following criteria:

- It is possible to measure.
- It must be large enough to earn profit.
- It must be stable enough that it does not vanish after some time.
- It is possible to reach potential customers via the organization's promotion and distribution channel.
- It is internally homogeneous (potential customers in the same segment prefer the same product qualities).
- It is externally heterogeneous,( potential customers from different segments have different quality preferences).
- It responds consistently to a given market stimulus.
- It can be reached by market intervention in a cost-effective manner.
- It is useful in deciding on the marketing mix.
- It identifies the target customer(s) (surrogate(s))
- It provides supporting data for a market positioning or sales approach.

### **Methods for segmenting consumer markets**

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#### **Geographic Segmentation**

Marketers can segment according to geographic criteria—nations, states, regions, countries, languages, cities, neighborhoods, or postal codes. The geo-cluster approach combines demographic data with geographic data to create a more

accurate or specific profile. With respect to region, in rainy regions merchants can sell things like raincoats, umbrellas and gumboots. In hot regions, one can sell summer clothing. A small business commodity store may target only customers from the local neighborhood, while a larger department store can target its marketing towards several neighborhoods in a larger city or area, while ignoring customers in other continents. Geographic Segmentation is important and may be considered the first step to international marketing, followed by demographic and psychographic segmentation. The use of national borders is the institutional use of geographic segmentation, although geographic segments may be classified by identified geological regions.

### **Demographic Segmentation**

Demographic segmentation is dividing markets into different groups according to their age, gender, the amount of income, the ethnicity or religion of the market and the family life cycle. The U.S. Census uses demographic segmentation to document and segment the people living in the U.S.

### **Behavioral Segmentation**

Behavioral segmentation divides consumers into groups according to their knowledge of, attitude towards, usage rate or response to a product.

### **Psychographic Segmentation**

Psychographic segmentation, which is sometimes called Lifestyle. This is measured by studying the activities, interests, and opinions (AIOs) of customers. It considers how people spend their leisure,<sup>[4]</sup> and which external influences they are most responsive to and influenced by. Psychographic is highly important to segmentation, because it identifies the personal activities and targeted lifestyle the target subject endures, or the image they are attempting to project. Mass Media has a predominant influence and effect on Psychographic segmentation. Lifestyle products may pertain to high involvement products and purchase decisions, to specialty or luxury products and purchase decisions. Lifestyle segmentation reflects on how the target subject identifies them, or how they desire to identify themselves in society. By identifying and understanding consumer lifestyle, businesses can develop promotional mixes and product lines, which tailor to their needs.

Segmentation according to occasions relies on the special needs and desires of consumers on various occasions - for example, for products for use in relation with a certain holiday. Products such as decorations or lamps are marketed almost exclusively in the time leading up to the related event, and will not generally be

available all year round. Another type of occasional market segments are people preparing for a wedding or a funeral, occasions which only occur a few times in a person's lifetime, but which happen so often in a large population that ongoing general demand makes for a worthwhile market segment.

### **Segmentation by benefits**

Segmentation can take place according to benefits sought by the consumer or according to perceived benefits which a product/service may provide.

### **Multi-Variable Account Segmentation**

In Sales Territory Management, using more than one criterion to characterize the organization's accounts,<sup>[6]</sup> such as segmenting sales accounts by government, business, customer, etc. and account size/duration, in effort to increase time efficiency and sales volume.

### **Using segmentation in customer retention**

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The basic approach to retention-based segmentation is that a company tags each of its active customers with three values:

#### **Is this customer at high risk of canceling the company's service?**

One of the most common indicators of high-risk customers is a drop off in usage of the company's service. For example, in the credit card industry this could be signaled through a customer's decline in spending on his or her card.

#### **Is this customer worth retaining?**

This determination boils down to whether the post-retention profit generated from the customer is predicted to be greater than the cost incurred to retain the customer.

#### **What retention tactics should be used to retain this customer?**

For customers who are deemed worthy of saving, it is essential for the company to know which save tactics are most likely to be successful. Tactics commonly used range from providing special customer discounts to sending customers communications that reinforce the value proposition of the given service.

### **Price discrimination**

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Where a monopoly exists, the price of a product is likely to be higher than in a competitive market and the price can be increased further if the market can be segmented with different prices charged to different segments charging higher prices to those segments willing and able to pay more and charging less to those whose demand is price elastic. The price discriminator might need to create *rate*

*fences* that will prevent members of a higher price segment from purchasing at the prices available to members of a lower price segment. This behavior is rational on the part of the monopolist, but is often seen by competition authorities as an abuse of a monopoly position, whether or not the monopoly itself is sanctioned. Areas in which this price discrimination is seen range from transportation to pharmaceuticals. Price discrimination may be considered price-fixing under the control of an oligopoly or consortium in certain circumstances of deregulation and leisure.

### **Divide and Rule Political Concept**

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In politics and sociology, divide and rule (or divide and conquer) is gaining and maintaining power by breaking up larger concentrations of power into pieces that individually have less power than the one implementing the strategy. The concept refers to a strategy that breaks up existing power structures and prevents smaller power groups from linking up.

### **Factors that segment prospects**

Having determined the more general segmentation characteristics you can proceed to a more detailed analysis of the market. There are literally thousands of ways to segment a market, but the following are some of the more typical segmentation categories.

#### **For businesses:**

Industry by SIC code

This is especially beneficial for vertical market offerings.

Size - revenues, # employees, # locations

In general if your offering is highly sophisticated, requires significant resources or provides greater value based on volume, then the target should be the larger enterprises.

Job position/responsibility

Examples of offerings might be planning software for managers or cleaning agents for maintenance managers.

Climate

Examples of offerings might be dehumidifiers in areas near the ocean or snow plows in northern areas.

Time related factors

Some services in this category are vacation related industries in summer and tax planners in the spring.

Language

An example of a language specific service is a Spanish TV channel.

Status in the industry

You might want to target businesses that are the technology leader or revenue leader or employee satisfaction leader, etc.

Accessibility

To minimize promotion and sales expense you may want to target urban rather than rural or local rather than national prospects.

Future potential

A good example is how Apple Computer supplied products to schools at all levels to condition students graduating into the marketplace.

Ability to make a quick purchase decision

Targeting individual purchasers versus business committees can significantly reduce marketing expense and increase the probability of a quick close.

Access (or lack of access) to competitive offerings

Cable TV business's significant investment in their service delivery system has allowed a near monopoly for some time. IBM's service reputation insured minimal competition during the mainframe days.

Need for customization

Offerings such as police cars, busses for municipalities and specialized computer systems fall into this category.

Product or service application to a business function

Examples are data processing, accounting, human resources and plant maintenance.

**For Individual Consumers:**

Physical Size

Offerings might be big men's clothing, golf clubs for shorter players, etc.

Creation of or response to a fad

Examples are hula hoops, Jurassic Park T-shirts, pet rock, physical fitness, etc.

Geographic location

Marketers take advantage of location by selling suntan lotion in Hawaii, fur coats in Alaska, etc.

Time related factors

You may be able to target vacationers in summer, impulse buyers during the holidays or commuters at 7AM.

Demographics/culture/religion

Ethnic products would fall into this category.

Gender

Product examples are scarves for women, ties for men, etc.

Age

Product examples are toys for children, jewelry for women, etc.

Social status

This could include country club memberships, philanthropic contributions, etc.

Education

Product and service examples are encyclopedias, scientific calculators, learning to read tools and financial counseling.

Avocation

This could include products for hunting, fishing, golf, art work, knitting, etc.

Special Interests

You could target cat lovers, science fiction readers, jazz music collectors, etc.

Accessibility

Because the individual is more difficult to reach you may want to segment by urban versus rural, train commuters, people who read Wall Street Journal, etc.

Access (or lack of access) to competitive offerings

Due to high investment capital requirements or timing of market entry you may be able to capture a significant market share in a specific geographical area. Examples might be a trash service, emergency medical support, etc.

Need for specific information

Based on features or content of your offering you can target a market segment. A product might be books on how to start a business or a service might be seminars on how to quit smoking.

Need for customization

Product/service examples are home decoration, fashion wear, personal portraits, etc.

Need for quality, durability, etc.

Product examples are mountain climbing gear, carpenter's tools, etc.

Degree of a product/service ingredient

Segmentation based on prospect preferences is common. An example is dark chocolate for some tastes, light chocolate for others.