# SUBJECT – MARKETING MANAGEMENT

## UNIT I – INTRODUCTION (PART – VII)

## MARKET SEGMENTATION

- **Market segmentation** is the process of dividing a broad consumer or business market, normally consisting of existing and potential customers, into sub-groups of consumers (known as segments) based on some type of shared characteristics.
- In dividing or segmenting markets, researchers typically look for shared characteristics such as common needs, common interests, similar lifestyles or even similar demographic profiles.
- The overall aim of segmentation is to identify high yield segments – that is, those segments that are likely to be the most profitable or that have growth potential – so that these can be selected for special attention (i.e. become target markets).
- Market segmentation assumes that different market segments require different marketing programs – that is, different offers, prices, promotion, distribution or some combination of marketing variables.
- Market segmentation is not only designed to identify the most profitable segments, but also to develop profiles of key segments in order to better understand their needs and purchase motivations.
- Insights from segmentation analysis are subsequently used to support marketing strategy development and planning.
- Many marketers use the **S-T-P** approach; **S**egmentation→ **T**argeting → **P**ositioning to provide the framework for marketing planning objectives.

- That is, a market is segmented, one or more segments are selected for targeting, and products or services are positioned in a way that resonates with the selected target market or markets.

## History

- Wendell R. Smith is generally credited with being the first to introduce the concept of market segmentation into the marketing literature in 1956 with the publication of his article, "Product Differentiation and Market Segmentation as Alternative Marketing Strategies."

The business historian, Richard S. Tedlow, identifies four stages in the evolution of market segmentation:

**1. Fragmentation (pre 1880s)**:

- The economy was characterised by small regional suppliers who sold goods on a local or regional basis.

**2. Unification or Mass Marketing (1880s–1920s)**:

- As transportation systems improved, the economy became unified.
- Standardized, branded goods were distributed at a national level.
- Manufacturers tended to insist on strict standardization in order to achieve scale economies with a view to penetrating markets in the early stages of a product's life cycle.

**3. Segmentation (1920s–1980s)**:

- As market size increased, manufacturers were able to produce different models pitched at different quality points to meet the needs of various demographic and psychographic market segments.
- This is the era of market differentiation based on demographic, socio-economic and lifestyle factors.

**4. Hyper-segmentation (1980s+):**

- A shift towards the definition of ever more narrow market segments.
- Technological advancements, especially in the area of digital communications, allow marketers to communicate with individual consumers or very small groups.
- This is sometimes known as one-to-one marketing.

## Market Segmentation Strategy

- A key consideration for marketers is whether to segment or not to segment.
- Depending on company philosophy, resources, product type or market characteristics, businesses may develop an undifferentiated approach or differentiated approach.
- In an undifferentiated approach, the marketer ignores segmentation and develops a product that meets the needs of the largest number of buyers.
- In a differentiated approach the firm targets one or more market segments, and develops separate offers for each segment.
- In consumer marketing, it is difficult to find examples of undifferentiated approaches.
- Even goods such as salt and sugar, which were once treated as commodities, are now highly differentiated.

**Main Strategic Approaches to Segmentation**

| Number of segments | Segmentation strategy | Comments |
|---|---|---|
| Zero | Undifferentiated strategy | Mass marketing: no segmentation |
| One | Focus strategy | Niche marketing: focus efforts on a small, tightly defined target market |
| Two or more | Differentiated strategy | Multiple niches: focus efforts on 2 or more, tightly defined targets |
| Thousands | Hyper segmentation | One-to-one marketing: customize the offer for each individual customer |

## Bases for Segmenting Consumer Markets

- A major step in the segmentation process is the selection of a suitable base.
- In this step, marketers are looking for a means of achieving internal homogeneity (similarity within the segments), and external heterogeneity (differences between segments).
- In other words, they are searching for a process that minimises differences between members of a segment and maximises differences between each segment.

- In addition, the segmentation approach must yield segments that are meaningful for the specific marketing problem or situation.
- For example, a person's hair colour may be a relevant base for a shampoo manufacturer, but it would not be relevant for a seller of financial services.
- Selecting the right base requires a good deal of thought and a basic understanding of the market to be segmented.

**1. Geographic Segmentation**

Geographic segmentation divides markets according to geographic criteria. In practice, markets can be segmented as broadly as continents and as narrowly as neighborhoods or postal codes.

**Typical geographic variables include:**

- **Country** e.g. USA, UK, China, Japan, South Korea, Malaysia, Singapore, Australia,
- **Region** e.g. North, North-west, Mid-west, South, Central
- **Population density**: e.g. central business district (CBD), urban, suburban, rural, regional
- **City or town size**: e.g. under 1,000; 1,000–5,000; 5,000–10,000 ... 1,000,000–3,000,000 and over 3,000,000
- **Climatic zone**: e.g. Mediterranean, Temperate, Sub-Tropical, Tropical, Polar,
- The geo-cluster approach (also called geodemographic segmentation) combines demographic data with geographic data to create richer, more detailed profiles.
- Geo-cluster approaches are a consumer classification system designed market segmentation and consumer profiling purposes.
- They classify residential regions or postcodes on the basis of census and lifestyle characteristics obtained from a wide range of sources.

- This allows the segmentation of a population into smaller groups defined by individual characteristics such as demographic, socio-economic or other shared socio-demographic characteristics.
- Geographic segmentation may be considered the first step in international marketing, where marketers must decide whether to adapt their existing products and marketing programs for the unique needs of distinct geographic markets.
- Tourism Marketing Boards often segment international visitors based on their country of origin.
- A number of proprietary geo-demographic packages are available for commercial use.
- Geographic segmentation is widely used in direct marketing campaigns to identify areas which are potential candidates for personal selling, letter-box distribution or direct mail.
- Geo-cluster segmentation is widely used by Governments and public sector departments such as urban planning, health authorities, police, criminal justice departments, telecommunications and public utility organisations such as water boards.

**2. <u>Demographic Segmentation</u>**

- Segmentation according to demography is based on consumer- demographic variables such as age, income, family size, socio-economic status, etc.
- Demographic segmentation assumes that consumers with similar demographic profiles will exhibit similar purchasing patterns, motivations, interests and lifestyles and that these characteristics will translate into similar product/brand preferences.

- In practice, demographic segmentation can potentially employ any variable that is used by the nation's census collectors.

**Typical demographic variables and their descriptors are as follows:**

- **Age**: e.g. Under 5, 5–8 years, 9–12 years, 13–17 years, 18–29, 30–39, 40–49, 50–59, 60+
- **Gender**: Male, Female
- **Occupation**: Professional, self-employed, semi-professional, clerical/ admin, sales, trades, mining, primary producer, student, home duties, unemployed, retired
- **Social class** (or socio-economic status): A, B, C, D, E, or I, II, III, IV or V (normally divided into quintiles)
- **Marital Status**: Single, married, divorced, widowed
- **Family Life-stage**: Young single; Young married with no children; Young family with children under 5 years; Older married with children; Older married with no children living at home, Older living alone
- **Family size/ number of dependents**: 0, 1–2, 3–4, 5+
- **Income**: Under $10,000; 10,000–20,000; 20,001–30,000; 30,001–40,000, 40,001–50,000
- **Educational attainment**: Primary school; Some secondary, Completed secondary, Some university, Degree; Post graduate or higher degree
- **Home ownership**: Renting, Own home with mortgage, Home owned outright
- **Ethnicity**: Asian, African, Aboriginal, Polynesian, Melanesian, Latin-American, African-American, American Indian etc.
- **Religion**: Catholic, Protestant, Muslim, Jewish, Buddhist, Hindu, Other

- In practice, most demographic segmentation utilizes a combination of demographic variables.
- The use of multiple segmentation variables normally requires analysis of databases using sophisticated statistical techniques such as cluster analysis or principal components analysis.
- It should be noted that these types of analysis require very large sample sizes.
- However, data-collection is expensive for individual firms.
- For this reason, many companies purchase data from commercial market research firms, many of whom develop proprietary software to interrogate the data.
- The labels applied to some of the more popular demographic segments began to enter the popular lexicon in the 1980s.

**3. Psychographic Segmentation**

- Psychographic segmentation, which is sometimes called lifestyle segmentation, is measured by studying the activities, interests, and opinions (AIOs) of customers.
- It considers how people spend their leisure, and which external influences they are most responsive to and influenced by.
- Psychographics is a very widely used basis for segmentation, because it enables marketers to identify tightly defined market segments and better understand consumer motivations for product or brand choice.
- While many of these proprietary psychographic segmentation analyses are well-known, the majority of studies based on psychographics are custom designed.
- That is, the segments are developed for individual products at a specific time.

- One common thread among psychographic segmentation studies is that they use quirky names to describe the segments.

## 4. Behavioral Segmentation

Behavioral segmentation divides consumers into groups according to their observed behaviors. Many marketers believe that behavioral variables are superior to demographics and geographics for building market segments.

Typical behavioral variables and their descriptors include:

- **Purchase/Usage Occasion**: e.g. regular occasion, special occasion, festive occasion, gift
- **Benefit-Sought**: e.g. economy, quality, service level, convenience, access
- **User Status**: e.g. First-time user, Regular user, Non-user
- **Usage Rate/ Purchase Frequency**: e.g. Light user, heavy user, moderate user
- **Loyalty Status**: e.g. Loyal, switcher, non-loyal, lapsed
- **Buyer Readiness**: e.g. Unaware, aware, intention to buy
- **Attitude to Product or Service**: e.g. Enthusiast, Indifferent, Hostile; Price Conscious, Quality Conscious
- **Adopter Status**: e.g. Early adopter, late adopter, laggard

## Other Types of Consumer Segmentation

In addition to geographics, demographics, pyschographics and behavioral bases, marketers occasionally turn to other means of segmenting the market, or to develop segment profiles.

## 5. Generational Segments

A generation is defined as "a cohort of people born within a similar span of time (15 years at the upper end) who share a comparable age and life stage and who were shaped by a particular span of time (events, trends and developments)."

Generational segmentation refers to the process of dividing and analysing a population into cohorts based on their birth date.

Generational segmentation assumes that people's values and attitudes are shaped by the key events that occurred during their lives and that these attitudes translate into product and brand preferences.

Demographers, studying population change, disagree about precise dates for each generation.

Dating is normally achieved by identifying population peaks or troughs, which can occur at different times in each country.

For example, in Australia the post-war population boom peaked in 1960,[44] while the peak occurred somewhat later in the USA and Europe, with most estimates converging on 1964.

Accordingly, Australian Boomers are normally defined as those born between 1945–1960; while

American and European Boomers are normally defined as those born between 1945–64.

Thus, the generational segments and their dates discussed here must be taken as approximations only.

The primary generational segments identified by marketers are:

- Builders: born 1920 to 1945
- Baby boomers: born about 1945–1965
- Generation X: born about 1966–1976
- Generation Y: also known as Millennials; born about 1977–1994
- Generation Z: also known as Centennials; born 1995–2015

## 6. Cultural Segmentation

- Cultural segmentation is used to classify markets according to cultural origin.
- Culture is a major dimension of consumer behavior and can be used to enhance customer insight and as a component of predictive models.
- Cultural segmentation enables appropriate communications to be crafted to particular cultural communities.
- Cultural segmentation can be applied to existing customer data to measure market penetration in key cultural segments by product, brand, channel as well as traditional measures of recency, frequency and monetary value.
- These benchmarks form an important evidence-base to guide strategic direction and tactical campaign activity, allowing engagement trends to be monitored over time.
- Cultural segmentation can also be mapped according to state, region, suburb and neighborhood.
- This provides a geographical market view of population proportions and may be of benefit in selecting appropriately located premises, determining territory boundaries and local marketing activities.
- Census data is a valuable source of cultural data but cannot meaningfully be applied to individuals.
- Name analysis (onomastics) is the most reliable and efficient means of describing the cultural origin of individuals.
- The accuracy of using name analysis as a surrogate for cultural background in Australia is 80–85%, after allowing for female name changes due to marriage, social or political reasons or colonial influence.

- The extent of name data coverage means a user will code a minimum of 99 percent of individuals with their most likely ancestral origin.

| Segmentation base | Brief explanation of base (and example) | Typical segments |
|---|---|---|
| **Demographic** | Quantifiable population characteristics. (e.g. age, gender, income, education, socio-economic status, family size or situation). | e.g. Young, Upwardly-mobile, Prosperous, Professionals (YUPPY); Double Income No Kids (DINKS); Greying, Leisured And Moneyed (GLAMS); Empty- nester, Full-nester |
| **Geographic** | Physical location or region (e.g. country, state, region, city, suburb, postcode). | e.g. New Yorkers; Remote, outback Australians; Urbanites, Inner-city dwellers |
| **Geo-demographic** or geoclusters | Combination of geographic & demographic variables. | e.g. Rural farmers, Urban professionals, 'sea-changers', 'tree-changers' |
| **Psychographics** | Lifestyle, social or personality characteristics. | e.g. Socially Aware; Traditionalists, Conservatives, |

| | | |
|---|---|---|
| | (typically includes basic demographic descriptors) | Active 'club-going' young professionals |
| **Behavioural** | Purchasing, consumption or usage behaviour. (e.g. Needs-based, benefit-sought, usage occasion, purchase frequency, customer loyalty, buyer readiness). | e.g. Tech-savvy (aka tech-heads); Heavy users, Enthusiasts; Early adopters, Opinion Leaders, Luxury-seekers, Price-conscious, Quality-conscious, Time-poor |

## Segmentation, Targeting, Positioning

- The process of segmenting the market is deceptively simple.
- Seven basic steps describe the entire process including segmentation, targeting and positioning.
- In practice, however, the task can be very laborious since it involves poring over loads of data, and requires a great deal of skill in analysis, interpretation and some judgement.
- Although a great deal of analysis needs to be undertaken, and many decisions need to be made, marketers tend to use the so-called S-T-P process, that is **S**egmentation→ **T**argeting → **P**ositioning, as a broad framework for simplifying the process.
- Segmentation comprises identifying the market to be segmented; identification, selection, and application of bases to be used in that segmentation; and development of profiles.

- Targeting comprises an evaluation of each segment's attractiveness and selection of the segments to be targeted. Positioning comprises identification of optimal position and development of the marketing program.

## Selecting Target Markets

- Another major decision in developing the segmentation strategy is the selection of market segments that will become the focus of special attention (known as target markets).

**The marketer faces a number of important decisions:**

- What criteria should be used to evaluate markets?
- How many markets to enter (one, two or more)?
- Which market segments are the most valuable?
- When a marketer enters more than one market, the segments are often labelled the primary target market, secondary target market.
- The primary market is the target market selected as the main focus of marketing activities.
- The secondary target market is likely to be a segment that is not as large as the primary market, but has growth potential.
- Alternatively, the secondary target group might consist of a small number of purchasers that account for a relatively high proportion of sales volume perhaps due to purchase value or purchase frequency.

**In terms of evaluating markets, three core considerations are essential:**

- Segment size and growth
- Segment structural attractiveness

- Company objectives and resources.

## Criteria for Evaluating Segment Attractiveness

There are no formulas for evaluating the attractiveness of market segments and a good deal of judgement must be exercised.

Nevertheless, a number of considerations can be used to assist in evaluating market segments for overall attractiveness. The following lists a series of questions that can be asked.

## Segment Size and Growth

- How large is the market?
- Is the market segment substantial enough to be profitable? (Segment size can be measured in number of customers, but superior measures are likely to include sales value or volume)
- Is the market segment growing or contracting?
- What are the indications that growth will be sustained in the long term? Is any observed growth sustainable?
- Is the segment stable over time? (Segment must have sufficient time to reach desired performance level)

## Segment Structural Attractiveness

- To what extent are competitors targeting this market segment?
- Do buyers have bargaining power in the market?
- Are substitute products available?
- Can we carve out a viable position to differentiate from any competitors?
- How responsive are members of the market segment to the marketing program?

- Is this market segment reachable and accessible? (i.e., with respect to distribution and promotion)

**Company Objectives And Resources**

- Is this market segment aligned with our company's operating philosophy?
- Do we have the resources necessary to enter this market segment?
- Do we have prior experience with this market segment or similar market segments?
- Do we have the skills and/or know-how to enter this market segment successfully?

**Developing the Marketing Program and Positioning Strategy**

- When the segments have been determined and separate offers developed for each of the core segments, the marketer's next task is to design a marketing program (also known as the marketing mix) that will resonate with the target market or markets.
- Developing the marketing program requires a deep knowledge of key market segment's purchasing habits, their preferred retail outlet, their media habits and their price sensitivity.
- The marketing program for each brand or product should be based on the understanding of the target market (or target markets) revealed in the market profile.
- Positioning is the final step in the S-T-P planning approach; Segmentation→ Targeting → Positioning; a core framework for developing marketing plans and setting objectives.

- Positioning refers to decisions about how to present the offer in a way that resonates with the target market.
- During the research and analysis that forms the central part of segmentation and targeting, the marketer will have gained insights into what motivates consumers to purchase a product or brand.
- These insights will form part of the positioning strategy.
- According to advertising guru, David Ogilvy, "Positioning is the act of designing the company’s offering and image to occupy a distinctive place in the minds of the target market. The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand’s essence, what goals it helps the consumer achieve, and how it does so in a unique way."
- The technique known as perceptual mapping is often used to understand consumers' mental representations of brands within a given category.
- Traditionally two variables (often, but not necessarily, price and quality) are used to construct the map.
- A sample of people in the target market are asked to explain where they would place various brands in terms of the selected variables.
- Results are averaged across all respondents, and results are plotted on a graph, as illustrated in the figure.
- The final map indicates how the average member of the population views the brand that make up a category and how each of the brands relates to other brands within the same category.
- While perceptual maps with two dimensions are common, multi-dimensional maps are also used.

**<u>There are a number of different approaches to positioning:</u>**

1. Against a competitor
2. Within a category
3. According to product benefit
4. According to product attribute
5. For usage occasion
6. Along price lines e.g. a luxury brand or premium brand
7. For a user