UNIT 7
MARKET SEGMENTATION AND MARKET TARGETING

1. MARKET SEGMENTATION AND MARKET TARGETING

Market segmentation and market targeting are foundational concepts in strategic marketing. Market segmentation is the process of dividing a broad consumer or business market into sub-groups of consumers (known as segments) based on shared characteristics. Market targeting then involves evaluating each segment's attractiveness and selecting one or more segments to enter and serve. This strategic approach allows companies to focus their resources on the most promising opportunities and develop tailored marketing mixes for each target segment.

2. NEED FOR SEGMENTING MARKETS

The practice of segmentation is essential in today's diverse marketplace because of several key factors:

- **Consumer Heterogeneity**: Consumers are not a homogenous group. Their needs, preferences, buying habits, and responses to marketing efforts vary widely. A single product or message cannot satisfy everyone. For example, a sports shoe company cannot effectively market the same product to both professional athletes and casual walkers.

- **Resource Optimization**: Companies have limited resources—money, time, and personnel. By segmenting the market, a company can focus its marketing budget on specific groups that are most likely to respond, thereby maximizing its return on investment (ROI).

- **Competitive Advantage**: By identifying and serving an underserved or highly specific segment (a niche), a company can create a strong, defensible position in the market. It becomes known as the go-to provider for that particular group's needs, making it difficult for competitors to replicate.

- **Improved Customer Understanding**: The process of segmentation forces companies to deeply analyze and understand their customers. This detailed knowledge allows them to develop products and services that precisely meet their customers' needs, leading to higher customer satisfaction and loyalty.

3. MARKET SEGMENTATION LEVELS

Markets can be segmented at different levels of specificity, from mass marketing to highly customized, one-to-one marketing.

- **3.1 Segment Marketing**: A company identifies a large, identifiable group within a market with similar needs and preferences. This is a compromise between mass marketing (no segmentation) and individual marketing.
    - **Example**: An airline offering business class to a segment of travelers who value comfort, privacy, and premium service over price, and economy class to a segment of travelers who prioritize affordability.

- **3.2 Individual Marketing**: The most granular level of segmentation, where the company customizes its products, services, and marketing programs for a single customer. This is also known as "one-to-one marketing" or "customized marketing."
    - **Example**: A high-end fashion designer creating a bespoke suit for a client. In the digital world, this is seen in companies like Netflix, which recommends content based on a user's viewing history.
- **3.3 Niche Marketing**: The company focuses on a more narrowly defined group that seeks a distinct set of benefits. Niches are often small and attract fewer competitors, allowing for a strong market position.
    - **Example**: A company that sells only specialized equipment for rock climbing. Their marketing efforts are highly targeted at a passionate, specific community.
- **3.4 Local Marketing**: Marketing efforts are tailored to the needs and wants of local customer groups in specific geographical areas, such as cities, neighborhoods, or even individual stores.
    - **Example**: A national retail chain offering different products in its stores in a coastal city (e.g., beachwear) versus a mountain town (e.g., hiking gear) to meet the specific needs of the local population.

4. SELECTION OF SEGMENTATION VARIABLES

Marketers use a wide variety of variables to segment markets. The choice of variables depends on whether the market is for consumers or organizations.

4.1 Criteria for Segmenting Consumer Market

Consumer markets can be segmented using a wide range of variables:

- **4.1.1 Geographic segmentation**: Dividing the market into different geographical units, such as nations, states, regions, or cities.
    - **Example**: A clothing brand might sell warmer jackets in northern states and lighter clothing in southern states.
- **4.1.2 Demographic segmentation**: Dividing the market based on variables such as age, gender, family size, income, occupation, education, and social class.
    - **4.1.2.1 Age and life cycle stage**: A toy company might target products for infants (rattles), pre-teens (building blocks), and teenagers (video games).
    - **4.1.2.2 Gender**: A skincare brand might create different product lines for men and women, addressing their different skin types and needs.

    - **4.1.2.3 Income**: A car manufacturer offers luxury models for high-income earners and economy cars for lower-income groups.
    - **4.1.2.4 Generation**: Marketers target Gen Z (digital natives) with social media campaigns and Baby Boomers with traditional television advertising.
    - **4.1.2.5 Social Class**: A furniture store might have different product lines for middle-class consumers (functional and affordable) and upper-class consumers (designer and luxury).
- **4.1.3 Psychographic segmentation**: Dividing the market based on lifestyle, personality, and values.
    - **4.1.4 Lifestyle**: A brand of health-focused snack bars targets consumers with an active, health-conscious lifestyle.
    - **4.1.5 Personality**: A brand of motorcycles might appeal to consumers with an independent and adventurous personality.
    - **4.1.6 Values**: A company selling organic, sustainable products targets consumers who prioritize environmental responsibility and ethical consumption.
- **4.1.7 Behavioral Segmentation**: Dividing buyers into groups based on their knowledge of, attitude toward, use of, or response to a product.
    - **4.1.8 Occasions**: A flower delivery service markets its services for specific occasions like Valentine's Day or Mother's Day.
    - **4.1.9 Benefits**: A toothpaste brand markets different products for specific benefits: whitening, fighting cavities, or sensitivity.
    - **4.1.10 Usage Rate**: A subscription service offers different tiers for heavy, medium, and light users.
    - **4.1.11 Loyalty Status**: Consumers can be segmented by their loyalty to a brand.
        - **Hard-core loyals**: Consumers who buy a single brand all the time (e.g., a person who only drinks Coca-Cola).
        - **Split loyals**: Consumers who are loyal to two or three brands (e.g., a person who buys both Pepsi and Coke).
        - **Shifting loyals**: Consumers who shift loyalty from one brand to another (e.g., a person who used to buy Brand A but now buys Brand B).

        - **Switchers**: Consumers who show no loyalty and are constantly looking for a new product (e.g., a person who buys whatever shampoo is on sale).
    - **4.1.12 Buyer-readiness stage**: Consumers are at different stages of readiness to buy, from being unaware of a product to being ready to purchase. Marketers must use different communication strategies for each stage.
    - **4.1.13 Attitude**: A non-profit organization might target individuals with a positive attitude towards social causes with a request for a donation.

4.1.8 Multi-attribute segmentation: This is the most common approach. It involves using a combination of different variables (e.g., demographic, geographic, and behavioral) to create a more precise and targeted segment.

4.2 Criteria for Segmenting Organizational Markets

Organizational markets are segmented using a mix of consumer variables and specific business variables.

- **4.2.1 Demographics**:
    - **4.2.1.1 Industry**: A company selling specialized manufacturing equipment targets only businesses within the automotive industry.
    - **4.2.1.2 Company size**: A software company offers different pricing tiers and features for small businesses and large enterprises.
    - **4.2.1.3 Customer location**: A logistics company focuses its services on businesses located in major port cities to take advantage of their proximity to shipping hubs.
- **4.2.2 Operating Variables**:
    - **4.2.2.1 Company technology**: A firm selling advanced AI software targets businesses with a high level of technological adoption.
    - **4.2.2.2 Product and brand use status**: A supplier offers a different pricing strategy to first-time customers versus long-term, loyal customers.
    - **4.2.2.3 Customer capabilities**: A raw material supplier targets companies with their own in-house R&D departments that can effectively use their specialized products.
- **4.2.3 Purchasing approaches**:
    - **4.2.3.1 Organization's purchasing function**: A seller might offer a different sales approach to a company with a centralized purchasing department versus a decentralized one.

- **4.2.3.2 Power structures**: A seller must identify who holds the power in the buying center (e.g., the engineering department, the finance department, or a senior executive).
- **4.2.3.3 Relationships among the buyers and sellers**: A company might offer special terms to a long-term, trusted partner.
- **4.2.3.4 General purchasing policies**: A vendor might target companies that have a preference for long-term contracts.

- **4.2.4 Situational factors**:
  - **4.2.4.1 Urgency of order fulfillment**: A supplier of emergency medical supplies targets hospitals that need quick delivery.
  - **4.2.4.2 Product application**: A chemical company offers a different grade of a chemical to a textile factory versus a pharmaceutical manufacturer, based on its intended use.
  - **4.2.4.3 Size of the order**: A supplier of bulk materials offers different prices and delivery terms for large versus small orders.
- **4.2.5 Personal characteristics of the purchasers**: The demographics and personal preferences of the buyers within an organization can also influence the buying decision. For example, a buyer might prefer a specific supplier due to a long-standing personal relationship.

5. EFFECTIVE SEGMENTATION

For a market segment to be truly useful, it must meet several criteria:

- **Measurable**: The size, purchasing power, and characteristics of the segment must be quantifiable. If you can't measure a segment, you can't determine its profitability or allocate resources effectively.
- **Substantial**: The segment must be large and profitable enough to serve. It doesn't make sense to develop a specific marketing program for a segment that is too small to generate a significant return.
- **Accessible**: The segment must be effectively reachable and servable with marketing efforts. A company must be able to deliver its products and communicate its message to the target audience.
- **Differentiable**: The segments must be conceptually distinguishable and respond differently to various marketing mix elements. For example, if a segment of high-income consumers responds to a marketing message in the same way as a segment of low-income consumers, they are not truly different segments.

- **Actionable**: Effective programs can be designed to attract and serve the segments. The company must have the capabilities and resources to implement the necessary strategies.

6. TARGET MARKET SELECTION PROCESS

Once a company has segmented the market, it must evaluate and select which segments to target.

6.1 Evaluating the Market Segments

The company evaluates segments based on two main factors:

- **Segment Attractiveness**: The size, growth, profitability, and low risk of a segment. A company will look for segments that are growing, have high profit margins, and are not saturated with competition.

- **Company Objectives and Resources**: The company must ensure that the segment aligns with its long-term goals and that it has the necessary resources (financial, technological, and human) to compete effectively in that segment.

6.2 Selecting the Market Segments

A company can choose from five patterns for selecting market segments:

- **6.2.1 Single segment concentration**: The company focuses on a single segment. It becomes a specialist, gaining a deep understanding of the needs of that group.
    - **Example**: A company that only sells luxury watches to high-net-worth individuals.
- **6.2.2 Selective specialization**: The company selects a number of segments, each of which is objectively attractive and fits the company's objectives and resources. The segments may not be related to each other.
    - **Example**: A company that sells high-end coffee machines to cafes and also sells specialized packaging equipment to food manufacturers.
- **6.2.3 Product specialization**: The company focuses on making a specific product and selling it to several different segments.
    - **Example**: A company that manufactures a specific type of industrial chemical and sells it to a variety of industries, including textile, pharmaceutical, and cleaning companies.
- **6.2.4 Market specialization**: The company focuses on serving the needs of a particular customer group, offering a variety of products.

    - **Example**: A company that sells a complete range of medical products, including hospital beds, surgical instruments, and medical software, to a single market: hospitals.

- **6.2.5 Full market coverage**: The company attempts to serve all customer groups with all the products they might need. This is a strategy typically adopted by large corporations.
    - **Example**: Coca-Cola sells its beverages to every market segment, from children to adults, with a wide variety of product offerings.

6.3 Other Considerations

- **6.3.1 Ethical choice of market targets**: Marketers must be responsible in their targeting, avoiding segments that are particularly vulnerable, such as children, or that are being exploited. For example, it is unethical to market tobacco products to teenagers.
- **6.3.2 Segment interrelationships and supersegments**: A company should consider whether there are interdependencies between segments that can lead to economies of scale. A supersegment is a set of segments with some commonalities, and a company can serve them more efficiently by bundling its efforts.
- **6.3.3 Segment-by-segment invasion plans**: A company can use a strategic invasion plan to enter one segment, then use the reputation gained there to enter a second, and so on. This is a common strategy for startups challenging larger competitors.
- **6.3.4 Intersegment Cooperation**: Companies can encourage different segments to cooperate with each other for mutual benefit. For example, a company might create a platform for its business and consumer customers to interact, leading to new insights and opportunities.