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4.2 Marketing planning

Segmentation and targeting

Segmentation

Segmentation involves splitting a population into groups of people with similar needs or characteristics (see **Figure 1**). A target market is the consumer segment at which a business aims its marketing messages. For example, a clothing store may segment the population by age and gender. However, its target market may only consist of females aged between 16 and 25. The main methods of segmentation used by businesses can be split into three broad areas:

- geographic segmentation
- demographic segmentation
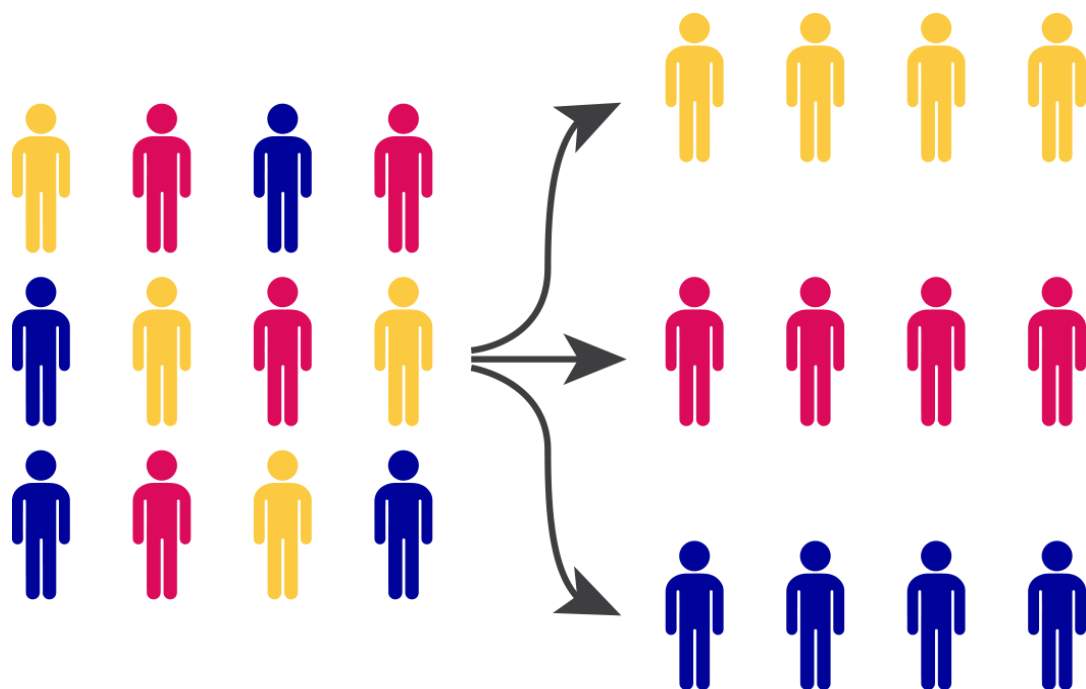- psychographic segmentation

Figure 1. Segmentation involves splitting a population into groups with similar characteristics.

Geographic segmentation

Geographic segmentation involves dividing potential customers based on their geographic location. This can include country-based or regional segmentation.

Region and continent

In order to lower per unit marketing costs, businesses often aim to target not just one country, but an entire region.

For example, the 2017 hit song *Despacito* was adapted for an English-speaking market by the Canadian singer, Justin Bieber. This song was originally performed by two Puerto Ricans and marketed mostly to Latin America and Spanish-speaking North America. The adaptation allowed it to reach a new geographic segment.

Country

Once businesses grow significantly in size, they may want to expand overseas. Segmenting consumers by country involves recognising different languages and cultures. Companies have to make very careful adjustments to their marketing approach to ensure that everything translates well.

Watch the video below, created by Nestlé's brand Maggi, targeting the Indian market.

Chalo Ordinary ko Extra-Ordinary Banate hai

Video 1. A Maggi commercial aimed at the Indian market.

State and country region

Regions within a country are populated by different groups. Most countries can be split by geographic or linguistic characteristics. Canada, for example, has a French and an English speaking region, while Russia is a multiethnic state with a variety of languages and religions, as well as different regional climates, from those with very cold winters to those with mild winters.

Urban and rural settings

Businesses will want to differentiate between these two settings because consumers in rural areas and urban areas may have different incomes, family life and availability of transport.

In countries such as the US, supermarkets typically have large stores in rural areas – because customers are able to drive there – and smaller stores in urban settings, where commuters might make purchases on their way home from work.

Watch the video below to see how Dollar General has been mostly targeting a rural population in the US by placing its stores away from commercial centres.

Video 2. How Dollar General has targeted a rural population.

Demographic segmentation

Demographic segmentation involves dividing consumers according to characteristics such as age, gender and occupation. Some of the most common methods of demographic segmentation are explained below.

Age

In almost every market – including music, fashion, food, financial services, holidays and hobbies – people's tastes change as they get older. Therefore, it makes sense for many companies to segment their markets by age.

Figure 2. Many companies segment their markets by age.

Credit: Ariel Skelley, Getty Images

In an attempt to classify the characteristics and needs of different age groups, marketers in the USA developed the generational categories, such as 'Millennials' (born between 1980 and 2000), 'Generation Z' (born between 2001 and the early 2010s) and 'Generation Alpha' (born between 2010 and the mid 2020s).

By using the generation-based method of segmentation, a company can quickly build up a broad profile of its age-segmented target market and develop products to meet their needs.

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Figure 3. Generation Z is an important target market for many fashion brands.

Credit: RgStudio, Getty Images

International Mindedness

The generational classifications mentioned above are used around the world. Some countries use other generational classifications depending on national history.

Gender

Another way to segment a target population is by gender. You may see many products in your local store targeted at men and women. These might be razors, creams, deodorant or vitamins, for example. There has, however, been a pushback against what some people perceive to be stereotyping.

Figure 4. Vitamins are often targeted at men, women, pregnant women, children and seniors.

Credit: LaylaBird, Getty Images

Socio-economic group

Socio-economic segmentation divides the population using the interlinked factors of occupation, income and level of education. For example, in Peru, the polling firm Ipsos divides the population into classes A to E based on income level (see **Table 1**).

Table 1. Socio-economic distribution in Peru.

Socio-economic level	Monthly income in PEN (Peruivan sol)	Percentage of income spent monthly (%)
A	12 660	62
B	7020	68
C	3970	75

Socio-economic level	Monthly income in PEN (Peruivan sol)	Percentage of income spent monthly (%)
D	2480	80
E	1300	87

Making connections

If you take IBDP Economics, you may be familiar with the concept of 'marginal propensity to spend'. Looking at **Table 1**, you can see that those in the lower income brackets spend a larger portion of their income than those in higher income brackets. In other words, those with a lower income have a higher marginal propensity to spend.

So to whom do you think banks and financial institutions should promote their services? It would be more reasonable to promote investing, insurance and financial services to the higher earning group, as this group is more willing and able to spend on these services.

Psychographic factors

Psychographic segmentation divides the population according to lifestyle and personal interests. Customer profiling can lead to targeted direct marketing campaigns where customers are offered goods that marketers believe they will be interested in.

When you look at a magazine stand, for example, you will see magazines that are targeted towards those with interests in history, fitness and yoga, travel, cooking, knitting, etc. These are all examples of psychographic segmentation.

Figure 5. A magazine stand has magazines targeted at readers with different interests.

Credit: Busà Photography, Getty Images

Advantages of segmentation

Advantages of segmentation include being able to:

- identify gaps and opportunities in markets
- design suitable products for specific groups in order to increase sales and profits
- reduce the waste of resources
- diversify and spread risks targeting different consumer segments

Activity

Learner profile: Thinkers
Approaches to learning: Research skills (media literacy)

Watch the Volvo commercial below and find evidence of segmentation by:

- age
- socioeconomic group

- geography

Volvo: The Ultimate Safety Test

Video 3. A commercial for Volvo; in search of the ultimate safety test.

Targeting

Targeting refers to selecting the most appropriate segment for a marketing campaign. Often this will be obvious, with a specific age group, or a group with a particular set of tastes, being the most appropriate. But the selected segment can also be a larger group of individuals, especially when mass market products such as milk or crisps are marketed. The segment will be much smaller for more exclusive or niche markets such as high-end fashion.

New and small companies will have limited marketing budgets, and this may force them to target niche markets. These markets have less competition and a well-defined target market. Therefore, more cost-effective below the line promotional messages can be used. Larger companies can afford above the line promotional activities, such as television advertising, aimed at mass markets. You will learn more about these promotion methods in Subtopic 4.5 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39004).

Figure 6. K-Pop music producers target teenage fans through above the line promotion by advertising on TV, radio, billboards and social media.

Credit: Sunwoo Jung, Getty Images

Product Positioning

To compete against other brands within a market, companies need to differentiate themselves, positioning their brand to meet the needs of their selected target market. This limits potential competition and increases the chances of establishing customer loyalty. In other words, although companies may sell the same product category, there may be many factors that make what they sell slightly different. Their target audiences end up being different.

Product positioning maps

Product positioning maps are visual representations of how various competitors might attempt to position their brands in the eyes of the consumer (see **Figure 7**). A product positioning map usually displays two attributes, such as price and quality, or price and age. More complicated maps can include more than two attributes.
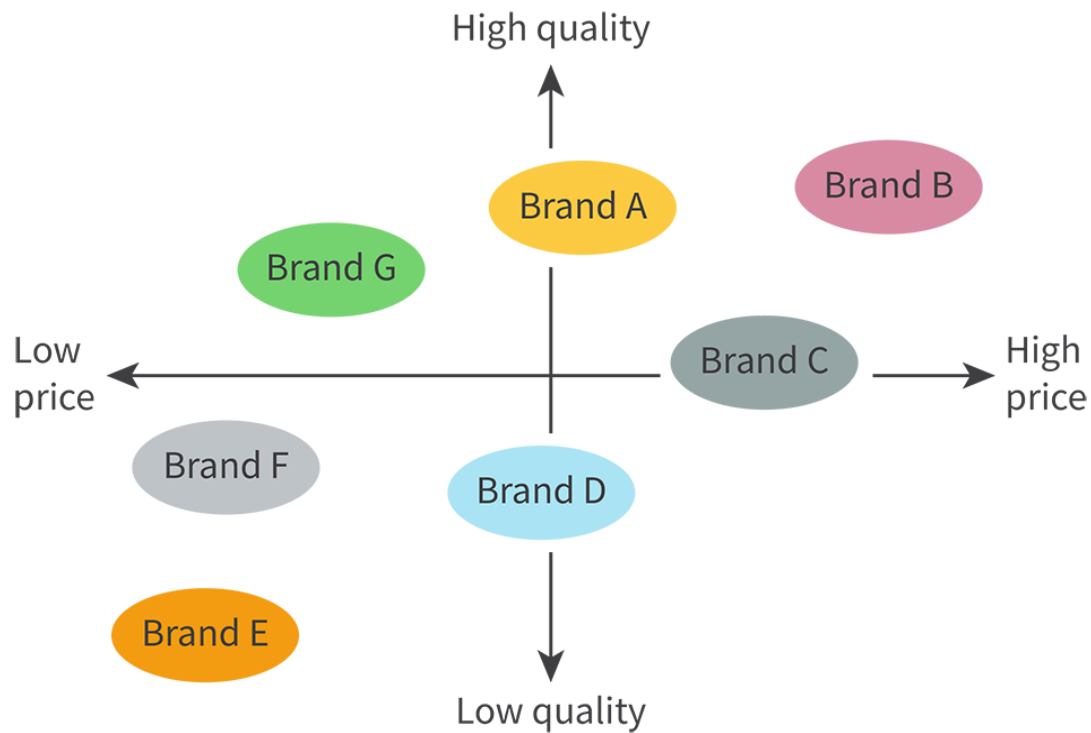
Figure 7. A product positioning map.

In **Figure 7**, the two axes chosen are price and quality. However, there are no set rules about how the information is displayed. Other common axes include product range or average store size.

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (critical thinking, transfer)

Think of a local market for a good or service that has a variety of providers. It could be an airline market, a car or bike market, a restaurant or hairdressing market, or something similar.

Construct a product positioning map for the businesses using price and quality as its axes. Make sure you justify where you position a specific product. For example, for restaurants, you may use their menus and restaurant reviews or stars as indicators of price and quality.

As a tool, a product positioning map is a useful for:

- identifying market segments whose needs and wants are not fulfilled

- establishing gaps and opportunities in the market for launching new products
- helping a business to understand who and what their closest competitors and threats are, and to use this information to target the market appropriately

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