Unit-2 Market Segmentation

Meaning and concept of Market Segmentation, Bases for Market Segmentation, Benefits of Market Segmentation, Target Marketing, Positioning Strategy, Diversification Strategy.

Meaning and concept of Market Segmentation

Meaning: Market segmentation is a process of dividing the market of potential customers into smaller and more defined segments on the basis of certain shared characteristics like demographics, interests, needs, or location.

Concept: Market segmentation describes the division of a market into homogeneous groups that will respond differently to promotions, communications, advertising and other marketing mix variables. 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.

Bases for Market Segmentation

- The bases for market segmentation can be broadly classified into following groups:

1**. Geographic Segmentation**:

Geographic location is one of the simplest methods of segmenting the market. People living in one region of the country have purchasing and consuming habit which differs from those living in other regions. This can be defined in any number of ways:

- Country
- Region
- City
- Postal code

2. **Demographic Segmentation**: Demographic variables such as age, occupation, education, sex and income are commonly used for segmenting markets. This is perhaps the most straightforward way of defining customer groups, but it remains powerful. Demographic segmentation looks at identifiable non-character traits such as:

- (a) Age: Teenagers, adults, retired.
- (b) Sex: Male and female.
- (c) Occupation: Agriculture, industry, trade, students, service sector, house-holds, institutions.
- (i) Industrial sector: Large, small, tiny.
- (ii) Trade: Wholesale, retail, exporters.
- (iii) Services: Professionals and non-professionals.
- (iv) Institutions: Educational, religions, clubs.
- (v) Agriculture and cottage industries.
- (d) Income Level: Above Rs. 1 lakh per annum, Rs. 50,000 to Rs. 1 lakh, Rs. 25,000 to Rs. 50,000 per annum, i.e., higher, middle and lower
- (e) Family Life-cycle: Young single, young married no children, young married youngest child under six, young married youngest child over six, older married with children, older married no children under eighteen, older single, etc.

3. **<u>Psychographic Segmentation</u>**: Under this method consumers are classified into market segments on the basis of their psychological make-up, i.e., personality, attitude and lifestyle. According to attitude towards life, people may be classified as traditionalists, achievers, etc.

(a) Innovators: These are cosmopolitan people who are eager to try new ideas. They are highly venturesome and willing to assume the risk of an occasional bad experience with a new product.

(b) Early Adopters: These are influential people with whom the average person checks out an innovation.

(c) Early Majority: This group tends to deliberate before adopting a new product. Its members are important in legitimizing an innovation but they are seldom leaders.

(d) Late Majority: This group is cautious and adopts new ideas after an innovation has received public confidence.

4. **Behavioristic Segmentation**: In this method consumers are classified into market segments not the basis of their knowledge, attitude and use of actual products or product attributes.

- (a) Purchase Occasion: Buyers may be differentiated on the basis of when they use a product or service.
- (b) Benefits Sought: The major benefit sought in a product is used as the basis of classify consumers. High quality, low price, good taste, speed, sex appeal are examples of benefits.
- (c) User Status: Potential buyers may be classified as regular users, occasional users and non-users. Marketers can develop new products or new uses of old products by targeting one or another of these groups.

5. **Volume Segmentation**: Consumers are classified light, medium and heavy users of a product. In some cases, 80 per cent of the product may be sold to only 20 per cent of the group. Marketers should pay attention to all the user groups because they represent different opportunities.

- 6. **Product-space Segmentation**: Here the buyers are asked to compare the existing brands according to their perceived similarity and in relation to their ideal brands. First, the analyst infers the latent attributes that consumers are using to perceive the brand. Then buyers are classified into groups each having a distinct ideal brand in mind. The distinctive characteristics of each group are ascertained.

7. **Benefit Segmentation**: Consumer behavior depends more on the benefit sought in product/service than on demographic factors. Each market segment is identified by the major benefits it is seeking. Most buyers seek as many benefits as possible. However, the relative importance attached to individual benefits differs from one group to another.

Benefits of Market Segmentation

- When customer needs are fully understood, marketers can effectively formulate and implement marketing programs, which will be in tune with the demands of the market.
- Marketers are in a better position to locate and compare marketing opportunities. Market can be defined more precisely in terms of customer needs.
- Marketers can make finer adjustments in their products and marketing communications. They can use rifle approach instead of shotgun approach.
- Competitive strengths and weaknesses can be assessed effectively and marketers can avoid fierce competition and use resources more profitably by catering to customer demand which is not being met by rivals.
- Potential customers differ in size, rate of usage, needs and wants, ability to pay, willingness to pay, willingness to innovate and many other characteristics. They have different values and attitudes. They have varied preferences. Each heterogeneous market can be divided or partitioned into a set of smaller, more homogeneous segments or groups of customers to arrive at an appropriate marketing-mix

- Segmentation leads to a more effective utilization of marketing resources because customer is the focus of marketing effort and only target markets are served.
- Market segmentation helps matching of market opportunities to corporate resources and enables the enterprise to give successful competition in the market. Products are tailored to the precise known needs of a segment.
- Market segmentation enhances marketing efficiency by offering specific pricing, promotion and distribution as per differing response features of each segment. The segmentation enables the enterprise to follow differentiated marketing.

Benefits of Segmentation to Marketers:

- **Customer Satisfaction:** Market segmentation enables the marketer to customize its products and services as per the needs and wants of its target market; thereby serving its customers in a better way leading to increased chances of customer satisfaction.
- Market segmentation enables the companies in maintaining good relationship with the customers.
- **Achieve Competitive Advantage**: Thorough study of market segments helps the marketer to understand the extent to which the customers are satisfied or not satisfied with its competitor's products and services and thereby formulate its marketing strategies in order to gain competitive advantage in the markets.
- **Meeting Customers' Needs**: Through segmentation study, the marketer can effectively position its brands in the marketer in order to meet the customer's needs effectively after assessing the opportunities prevailing in the market.
- **Identify Potential New Buyers for the Product:** Through market segmentation, the marketer can identify the potential buyers for its

product and persuade them to purchase the products through appropriate sales promotion and advertising campaigns.

- Market segmentation helps in targeted communication about the product.
- Market segmentation helps in retaining the existing customers and attracting new ones
- **Differentiating Two or More Brands of the Same Company**: Market segmentation strategies enable the bigger organizations to position their different brands appropriately so that they would not overlap each other and eat each other's market share thereby reducing their market share.
- **Identify Gaps in the Market**: Through market segmentation, the marketer can identify the segments which are not properly served by other marketers and thereby open new opportunity for the marketer to offer appropriate products which can satisfy the requirements of the new markets thereby increasing company's sales.
- **Better Targeting and Positioning of the Product**: Market segmentation enables the marketers to differentiate one customer group from the other; and thereby helps to decide on the market segment that the company wants to target.
- Market segmentation helps to reduce cost/expenses on various marketing activities and thus increases market share of the company thereby resulting into higher profits.

Target Marketing

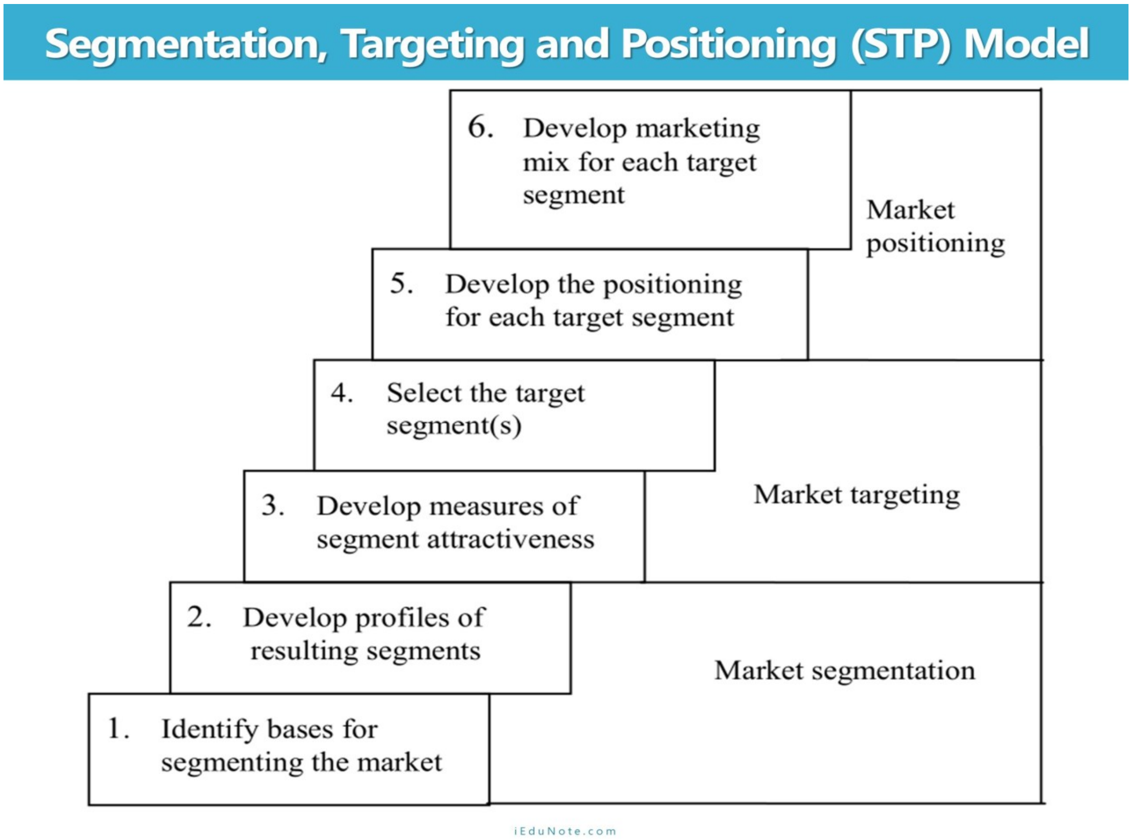
Meaning : Target Marketing involves breaking a market into segments and then concentrating your marketing efforts on one or a few key segments consisting of the customers whose needs and desires most closely match your product or service offerings. It can be the key to attracting new business, increasing sales, and making your business a success. The beauty of target marketing is that aiming your marketing efforts at specific groups of consumers makes the promotion, pricing, and distribution of your products and/or services easier and more cost effective and provides a focus to all of your marketing activities. For ex: The target market for Zodiac Clothing Company Limited or Louis Philippe would be the office goers whereas the target market for Levi's would be the school and college kids.

Basis of Target Marketing

- Age
- Gender
- Interests
- Geographic location
- Need
- Occupation

Target Marketing Process

The target marketing process provides the foundation for selecting the target market – a chosen segment of the market that an organization wishes to serve. It consists of the 3 step process of (1) segmentation, (2) targeting, and (3) positioning.



- **Market Segmentation**: The first step is market segmentation, which involves dividing a market into a distinct group of buyers with different needs, characteristics, or behavior who might require separate products or marketing mixes.

- **Market Targeting**: The second step is market targeting. Market targeting is the process of evaluating each market segment's attractiveness and selecting one or more segments to enter.

- **Marketing Positioning**: The third step is market positioning. Marketing positioning involves arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers, which is accomplished through formulating competitive positioning for a product and a detailed marketing mix.

Target Marketing Strategies

1. **Concentrated strategy** (Single- segment strategy): One market segment (not the entire market). A single-segment approach often is the strategy of choice for smaller companies with limited resources.

2. **Differentiated strategy** (Selective specialization or multiple – segment strategy): Different marketing mixes are offered to different marketing mixes are offered to different segments. The product it self may or may not be different-in many cases only the promotional messages or the distribution channels vary.

3. **Undifferentiated strategy**: This strategy can occur by default. Companies which lack a marketing orientation may practice this strategy because of lack of customer knowledge. It is convenient since a single product has to be developed. A company using an undifferentiated targeting strategy essentially adopts a mass-market philosophy. It views the market as one big market with no individual segments. The company uses one marketing mix for the entire market. The company assumes that individual customers have similar needs that can be met with a common marketing mix.

4**. Customized marketing:** In some markets, the requirements of individual customers are unique and their purchasing power is sufficient to make designing a separate marketing mix for each customer a viable option. Customized marketing is also found within organizational markets because of high value of orders and special needs of customers. Customized marketing is associated with close relationships between the supplier and customer because the high value of an order justifies large marketing and sales efforts being focused on each buyer.

POSITIONING STRATEGY

Once a target market has been selected, the product/service marketers must differentiate their item from products already offered to that target group. This differentiating is called positioning strategy of the product

Types of Positioning Strategies

There are several types of positioning strategies. A few examples are positioning by:

- **Product attributes and benefits:** Associating your brand/product with certain characteristics or with certain beneficial value
- **Product price:** Associating your brand/product with competitive pricing
- **Product quality:** Associating your brand/product with high quality
- **Product use and application:** Associating your brand/product with a specific use
- **Competitors:** Making consumers think that your brand/product is better than that of your competitors

How to Create an Effective Market Positioning Strategy?

1. Determine company uniqueness by comparing to competitors: Compare and contrast differences between your company and competitors to identify opportunities. Focus on your strengths and how they can exploit these opportunities.

2. Identify current market position: Identify your existing market position and how the new positioning will be beneficial in setting you apart from competitors.

3. Competitor positioning analysis: Identify the conditions of the marketplace and the amount of influence each competitor can have on each other.

4. Develop a positioning strategy: Through the preceding steps, you should achieve an understanding of what your company is, how your company is different from competitors, the conditions of the marketplace, opportunities in the marketplace, and how your company can position itself.

A positioning statement gives a clear, written summary of what your position is. Typically no longer than a paragraph, a positioning statement should include the following elements:

- Description of target market, along with their needs or goals
- Description of how your product meets these needs or goals
- Explanation of how the product is different from alternatives
- Justification or evidence for why consumers should believe these claims

DIVERSIFICATION STRATEGY

- Diversification strategy is when a business or a company proceed with the growth and development and expand its business in different markets and product areas. In other words, it means letting your business enter into the new markets and creating a new product.
  We can say that diversification is a growth and development strategy of your business by exploring new possibilities. When you follow this strategy, you diversify the product portfolio and increase the horizon of your business. Most importantly, it helps the company to amplify sales and profitability.

Levels of Diversification

Low Levels of Diversification
Low levels diversification has two sub-types; single business and dominant business. In a single company, 95% of the revenue/profit is from a single business. In the prevailing industry, 70% to 95% of the revenue is from the dominant company.

Moderate to High-Level Diversification
Moderate to high-level diversification has two sub-types; related constrained & related linked. In case of a related constrained, if all the businesses share

technological, product, and distribution linkage, then the revenue is lower than 70% from the dominant companies. In related links, the links among business are limited, and then the revenue is lower than 70% from the dominant companies.

Very High Level of Diversification

In unrelated links, the links between businesses aren't familiar, and the revenue is lower than 70% from the dominant companies.

Types of Diversification Strategies

Some of the main types of diversifications strategies are as follows;

Concentric Diversification

Concentric diversification is when a business introduces a new product into the new market. The product is similar to its current offer. But the company manages to get a competitive advantage by using the manufacturing process, technology advantage, and industry experience.

Conglomerate Diversification

Conglomerate diversification is when a company introduces an entirely new product and enters into the new market by targeting new customers market. The term conglomerate means a corporate group is managing various businesses in different categories. The parent company of all the sub-brands is a conglomerate. The conglomeration is a very successful diversification strategy.

Horizontal Diversification

Horizontal diversification is when a business introduces different and unrelated products/services. The goal of launching the related product is to satisfy the needs of customers. It involves a limited amount of risk because you're dealing with the same customer market.

Vertical Diversification

Vertical integration or vertical diversification is when a business integrates two or more production processes by moving up/down the supply chain. The company takes control over some of the core production, distribution, raw material, and assembly line processes.

Internal Diversification
Internal diversification is when a business launches its current/existing product into the new market. The goal is to increase the customer market by expanding the geographic borders. Companies do it by locating the new users of their existing products/services.

Internal diversification is also about introducing a new product to the current market. Businesses use their existing distribution channel to launch a new product.

External Diversification
External diversification is when a business launches a new product/service by going out of its current business operations. A merger is also a form of external diversification when two companies integrate their business operations to create something new. The merging companies usually comprise of a similar size.

The acquisition is also the second form and type of external diversification where one company buys another. The acquired company loses its identity and completely absorbs the buyer company.