Market segmentation notes

Finance, Market

Definition of 'Market Segmentation' A marketing term referring to the aggregating of prospective buyers into groups (segments) that have common needs and will respond similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another. Generally three criteria can be used to identify different market segments: 1) Homogeneity (common needs within segment) 2) Distinction (unique from other groups) 3) Reaction (similar response to market) Investopedia explains 'Market Segmentation'

For example, an athletic footwear company might have market segments for basketball players and long-distance runners. As distinct groups, basketball players and long-distance runners will respond to very different advertisements. Market segmentation is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs and applications for the relevant goods and services. Depending on the specific characteristics of the product, these subsets may be divided by criteria such as age and gender, or other distinctions, like location or income.

Marketing campaigns can then be designed and implemented to target these specific customer segments. Why Segment? One of the main reasons for using market segmentation is to help companies to better understand the needs of a specific customer base. Mass marketing assumes that all customers are the same and will respond to the same advertising. By looking at ways in which potential customer groups are different from each other, the marketing message can be better targeted to the needs and wants of those people.

Often, dividing consumers by clearly defined criteria will help the company identify other applications for their products that may not have been obvious before. These revelations often help the company target a larger audience in that same demographic classification, improving market share among a specific base. Segmenting the market can also serve to identify smaller groups of people who make up their own, previously unknown subsets, further improving the overall efficiency of the company's marketing efforts.

Segmentation Strategies According to experts, in order to be a good market segment, a group should meet five criteria: 1. It should be possible to identify and measure it, 2. it should be big enough to be worth the effort, 3. it should be easy to reach it, 4. it should not change quickly, 5. and it should be responsive. Market segmentation strategies that meet these criteria can cover wide range of consumer characteristics. Subsets may be defined by basic demographics like age, race, or gender, for example.

Other qualities, like educational background or income can also be used, as can location. Some of the potentially most powerful variables by which to segment a market are behavioral ones, including social class, lifestyle, and interests. In most scenarios, there will be at least a few established customers who fall into more than one category, but marketing strategists normally allow for this phenomenon. In fact, the overlap in criteria among consumers often leads to additional segmentation and requires adjusted marketing strategies.

A marketing plan that targets people who fall into several groups — like women over 30 who earn a high income, for example — may be more successful than one that focuses on just one limited characteristic. Other

Benefits Along with playing a role in the development of new marketing approaches, market segmentation can also help a company identify ways to enhance customerloyaltywith existing clients. As part of the process of identifying specific groups within the larger client base, the company will often run surveys which encourage customers to suggest ways of improving the company's products or services.

This may lead to changes in packaging or other similar cosmetic changes that do not necessarily impact the core product, but sometimes making a few simple changes in the appearance sends a clear message to consumers that recognizing their needs is as important to the company as making sales. This demonstration of good might go a long way to strengthen the ties between the consumer and the producer. Market segmentation is not only beneficial to the manufacturer or retailer, but can also have benefits to a consumer as well.

People in a particular market segment may get special deals on products as the company focuses on that group, or find that those products are available more widely. When a company responds to consumer feedback, it can mean that those people get changes in composition or packaging that better meet the user's needs. Disadvantages of Market Segmentation One of the biggest disadvantages of this marketing technique is the expense. A great deal of research often needs to be done to correctly identify those subsets that are most important for a company, and this takes time andmoney.

Once the key subsets are identified, different marketing messages usually need to be developed for each. In addition, changing the appearance of a product based on which segment it is being sold to adds to the production costs. If the market isn't segmented effectively, then all this money will be wasted. When the market segments that are identified are too narrow, it may be difficult for a company to be profitable. Niche marketing can work for some industries, but if the tastes of that subset change or a stronger competitor enters the field, a company that has focused too much on the one segment can lose its customer base quickly.

Targeting smaller segments also means that potential consumers outside of those groups may be ignored and their business lost. The Concept of Market Segmentation Market segmentation is the division of a market into different groups of customers with distinctly similar needs and product/service requirements. Or to put it another way, market segmentation is the division of a mass market into identifiable and distinct groups or segments, each of which have common characteristics and needs and display similar responses to marketing actions.

Market segmentation was first defined as ‘ a condition of growth when core markets have already been developed on a generalised basis to the point where additional promotional expenditures are yielding diminishing returns’ (Smith, 1956). There is now widespread agreement that they form an important foundation for successful marketing strategies and activities (Wind, 1978; Hooley and Saunders, 1993). The purpose of market segmentation is to leverage scarce resources; in other words, to ensure that the elements of the marketing mix, price, distribution, products and promotion, are designed to meet particular needs of different customer groups.

Since companies have finite resources it is not possible to produce all possible products for all the people, all of the time. The best that can be aimed for is to provide selected offerings for selected groups of people, most of the time. This process allows organizations to focus on specific customers' needs, in the most efficient and effective way. As Beane and Ennis (1987) eloquently commented, ' a company with limited resources needs to pick only the best opportunities to pursue'. The market segmentation concept is related to product differentiation.

If you aim at different market segments, you might adapt different variations of your offering to satisfy those segments, and equally if you adapt different versions of your offering, this may appeal to different market segments. Since there is less competition, your approach is less likely to be copied and so either approach will do. An example in the area of fashion retailing might be if you adapt your clothing range so that your skirts are more colourful, use lighter fabrics, and a very short hemline, for instance, this styling is more likely to appeal more to younger women.

If alternatively, you decide to target older women, then you might need to change the styling of your skirts to suit them by using darker, heavier fabrics, with a longer hemline. This is exactly what Marks and Spencer (M&S) did to attract a younger female shopper into their M&S stores and compete more directly with Next and Debenhams for share of this market. The company launched a range of female clothing called Per Una, and three years on the fashion range has been a huge success reportedly generating annual sales of nearly ? 230 m—more than 10 per cent of the total womenswear sales at M&S.

If you start by adapting new product variants, you are using a product differentiation approach. If you start with the customer's needs, you are using a market segmentation approach. This is illustrated more clearly in Figure 6. 2 using offering rather than product to indicate that the same concept may apply to a service. A relational marketing perspective would replace the marketing mix—the 4Ps —either with the 7Ps (see Chapter 15) or with a discussion of the need to design, develop, and deliver the customer experience (see Chapter 17).

The concept of market segmentation was first proposed as an alternative market development technique in imperfectly competitive markets, that is, in markets where there are relatively few competitors selling an identical product. Where there are lots of competitors selling identical products, market segmentation and product differentiation produce similar results as competitors imitate your strategic approach more quickly and product differentiation approaches meet market segment needs more closely. With an increasing proliferation of tastes in modern society, consumers have increased disposable incomes.

As a result, marketers have sought to design product and service offerings around consumer demand (market segmentation) more than around their own production needs (product differentiation) and they use market research to inform this process (see Market Insight 6. 1 and Chapter 4). Segmentation criteria for consumer markets Segmenting criteria for goods and services markets Kotler and Armstrong define market segmentation as " dividing a market into distinct groups of buyers who have distinct needs, characteristics, or behaviour and who might require separate products or marketing mixes” (Armstrong and Kotler, 2005: 54).