

Exam question and answer on market segmentation



QUESTION AND ANSWER ON MARKET SEGMENTATION Salim Brommer is the Marketing Director of Ashkol Furniture Supplies, a medium-sized company which specializes in manufacturing office furniture. The company makes its products in India, so benefiting from relatively low labour costs. However, it has recently experienced intense competition from suppliers who have even lower cost bases. Salim has decided that his company will benefit if he focuses on those customers who can provide higher profit margins. He has decided to target domestic customers in Europe.

Increasingly, private households, particularly those with computers, are converting spare rooms into office-style areas. Additionally there has been a noticeable trend towards working from home. This saves employers incurring the costs of office provision, and also employees save on travel and can also work at times convenient to themselves. However, Ashkol has no experience of dealing with these types of customers. The company now needs to develop a suitable marketing strategy to succeed in this new area and maintain a sustainable competitive advantage.

Required: a. Using a suitable model of your choice, develop a marketing approach which Salim might use to enter this new market. b. Explain how Salim could select appropriate target markets and position his products so as to create and sustain competitive advantage. Suggested Answer Salim needs to develop a marketing strategy for entry into the domestic market in Europe. This can be achieved by looking at the factors that make up the marketing mix: product, price, place and promotion. Choosing a marketing mix

The design of the marketing mix should be decided on the basis of management intuition and judgment, together with information provided by market research. Elements in the marketing mix partly act as substitutes for each other and they must be integrated. The product needs to be positioned to appeal to the target customer. For example, Ashkol would struggle to develop a luxury brand image if they set price at a low, penetration level.

Product The physical product needs to be appropriate for the private household market.

Office furniture may have a very different style to household furniture, so a different approach may need to be taken to the design of the product in order to make it appealing for the domestic buyer. A customer will only buy one of Salim's products if they get a better deal from buying it than from buying any of the alternatives. This highlights that the nature of the products in the new range will need to meet the demands of the new target market.

Areas to consider here are design (size, shape) and features. For example, it may need to be smaller and made of better quality material.

The space available in domestic accommodation is likely to be quite restricted, so some standard items may not sell well simply because they are too large. Multi-purpose items, such as desks that incorporate filing drawers and PC monitor stands may be required. Place Place deals with how the product is distributed, and how it reaches its customers. Establishing a suitable distribution system is going to be one of Salim's largest tasks. His products are bulky and will therefore have to be transported by ship from India to Europe, probably in freight containers, which will impose a minimum economic scale of shipment.

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Distribution Channels Serious consideration will have to be given to how customers will be able to view, order and receive delivery of the products. Furniture showrooms are necessarily large areas and need to be in areas where customers will be attracted. Even if selling is by direct mail or over the Internet, there will probably have to be a warehouse to receive bulk shipments from India, break them down and dispatch individual orders. All this has major cost implications perhaps offsetting the cost savings from cheaper labour.

These considerations alone may push Salim towards a co-operative venture with a European agent who knows the market and is prepared to take on the selling and distribution task. Promotion involves arousing attention, generating interest, inspiring desire and initiating action. Marketing communication involved in this could be advertising, public relations, direct selling or sales promotion. A furniture showroom would be part of this but a wider approach will be needed. The target market is people working from home and the promotional methods used should be appropriate to this market.

Types of promotion * Direct promotion via mailing lists may be appropriate, although because Salim has no experience in this market, he would probably have to buy the list which may make this an expensive option. * There are numerous home style magazines in which adverts can be placed. * The Internet is a vital part of the life of people working from home and its potential for promotion should be fully utilized, perhaps by setting up a dedicated website. Organising and designing the marketing communication

effort will almost certainly require input from someone familiar with the European market.

Price is the final element of the marketing mix and is an important signal to customers about the product. It is important that the price should be competitive so Salim should investigate the prices being charged by competitors who have similar product ranges. Price should also indicate the quality of the product so Salim will need to decide if he wants to produce a deluxe range or a more basic model. Discounts and payment terms need to be considered as a potential way of attracting customers especially in the initial start up phase of the new product line. Part (b)

Because of limited resources, competition and large markets, organisations are not usually able to sell with equal efficiency and success to every market segment. It is necessary to select target markets. A target market is a particularly attractive segment that will be served with a distinct marketing mix. While Salim's products may have some application for commercial users, he intends to sell them to customers, who will view them as shopping goods. These goods have a higher unit value than convenience goods and are bought less frequently, usually after some thought and consideration have been expended.

Salim should try to specify the segment of the customer market into which he wishes to sell his products with some care, since this will influence important decisions about all the elements of the marketing mix, including such things as product design, marketing communications, price and distribution methods. Kotler identified six steps: Step 1- Identify

segmentation variables and segment the market Step 2- Develop segment profiles Steps 1 and 2 are in segmentation Step 3- Evaluate that attractiveness of each segment Step 4- Select the target segment(s)

Steps 3 and 4 are in targeting Step 5- Identify positioning concepts for each target segment Step 6 - Select develop and communicate the chosen concept Steps 5 and 6 are in positioning Segmentation variables fall into a small number of categories. Geographical segmentation is very simple, but can usefully be combined with socio-demographic segmentation.

Psychographic segmentation is not based on objective data so much as how people see themselves and their subjective feelings and attitudes towards a particular product or service, or towards life in general.

The behavioural approach segments buyers into groups based on their attitudes to and use of the product, and the benefits they expect to receive. Both of these methods are most useful for convenience goods and are not, therefore likely to be very useful to Salim. Probably, the best segmentation approach for Salim is socio-demographic segmentation, which is based on social, economic and demographic variables such as education, income, occupation, family size and social class.

Much work has already been done on this approach, in the ACORN system, for example, and Salim would be able to buy in the basic information he needs. Segment Validity A market segment will only be valid if it is worth designing and developing a unique marketing mix for that specific segment. Salim will have to be sure of several things about his chosen target market: Is it large enough to be profitable? Does this segment respond differently in

the marketing mix than another segment? Can he reach the potential customers? Can the segment be reached profitably?

Is the segment stable enough to justify resources being spent on it? Will it enable him to build on the company's strengths? Internal Analysis It is important to assess company strengths when evaluating attractiveness and targeting a market. This can help determine the appropriate strategy; because once the attractiveness of each identified segment has been assessed it can be considered along with relative strengths to determine the potential advantages the organization would have. In this way, preferred segments can be targeted. Product Positioning

It is unlikely that Salim will be able to identify a market segment where there is no direct competitor, so it will be necessary to position the product line in such a way as to create of some form of product differentiation. The aim is to make the customer perceive the product as different from its competitors. An aid to this is to try to identify gaps in the market by considering the mix of the product attributes such as price, applications, users, occasions for use and specific aspects of quality may be drawn to refine knowledge of product position.