Market Segmentation Essay, Research Paper

Market Segmentation

Market segmentation is the division of a market into distinct groups of buyers who might require different products or marketing mixes (Kotler et al, 1994). It is the division of a heterogeneous market consisting of buyers with different needs and wants, into homogeneous segments of buyers with similar needs and wants. Therefore, the segments are heterogeneous between (ie. all the segments are different, eg. one segment all males, one segment all females) themselves, but homogeneous within (eg. within the male segment, all buyers are male; within the female segment, all buyers are female).

Segmentation is important as buyers have unique needs and wants. In segmenting a market, marketers look for broad classes of buyers who differ in their needs. There is no one right way of segmenting markets. A marketer has several bases available to him/her for the segmentation of markets.

Bases for Segmenting Consumer Markets

1. Geographical segmentation

Segmenting markets on the basis of geography involves dividing the market into different geographical units, eg. states, regions, countries, where the company pays attention to geographical differences in needs and wants. For example, there may be a greater need for T-shirts in the Northern part of Australia all year round rather than in the Southern part.

2. Demographic segmentation

Demographic segmentation involves dividing the market into groups based on demographic variables such as age, family size and life cycle, occupation, etc. It is the most popular bases for segmenting consumer markets because consumer needs often vary closely with demographic variables, an also because of the ease of measurement of the variables. Even when other bases are used for segmentation, demographic variables are still used in the description of the segments. For example, you may divide a country into Northern, southern, Eastern and Western regions. But, you may still describe each of the regions in terms of the demographics of the buyers living there eg. age, income, sex, occupation, race, etc.

3. Psychographic segmentation

Using psychographics to segment markets divides buyers into groups based on socioeconomic status, lifestyle or personality characteristics. Example, dividing the Australian market into leisure-seekers, work-oriented, and family-oriented segments.

4. Behaviour segmentation

Behaviour segmentation is where buyers are divided into groups based on their product knowledge, usage, attitudes or responses. Within behaviour segmentation, of particular importance is a powerful form of segmentation, benefit segmentation, which groups buyers depending on the various benefits sought by buyers from the product class. For example, you could segment the cereal market based on the benefits sought by cereal buyers: brand (eg. Kellogg’s), nutrition and health (eg. Sultana bran), diet (eg. Special K), taste (eg. Cocopops for kids), price (eg. Kellogg’s cornflakes), etc. Notice how each segment has particular products or brand which caters for the needs of that particular segment?

Bases for Segmenting Industrial Markets

Many of the variables used in segmenting consumer markets can be applied to the segmentation of industrial markets.

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Requirements for Effective Segmentation

Useful market segments must demonstrate the following characteristics:

The size and purchasing power of the segments must be measurable.

It must be possible to reach and serve the segment.

The segments must be large or profitable enough.

The segments must be suitable for the design of effective marketing mix programs.

Target Marketing

Market segmentation conducted by the company would reveal the various segments the company’s market consists of. The company now has to select which segment(s) it wishes to target.

Evaluating Market Segments

The first step in evaluating market segments is where the company gathers data on sales, growth and expected profit for the various segments in order to select segments that have the right size and growth characteristics. Next, the company examines the structural attractiveness of the segments, including: current and potential competitors; substitute products; and power of buyer and suppliers (if you wish to read more on structural attractiveness, refer to Michael Porter’s Five Forces). Finally, the company must consider the segment with regards to its objectives and resources. If a segment is in line with company objectives, the company must still consider if it has the superior skills and resources in comparison with competition to succeed in that segment.

Target Market Selection

After evaluating the various market segments, a company must choose one or more of these segments to make up its target market. Therefore, a target market is a set of buyers with common characteristics which a company decides to serve. The company has three market-coverage strategies available to it in selecting target markets.

1. Undifferentiated marketing

A company adopting an undifferentiated marketing strategy would ignore differences between market segments, and approach the market as a whole with one market offer. This strategy focuses on common buyer needs rather than what is different, and is designed to appeal to the largest number of buyers. Such a strategy provides cost economies, but difficulties can arise in the development of a product or brand that can satisfy all buyers.

2. Differentiated marketing

A company utilising a differentiated marketing strategy targets several market segments, with separate marketing mixes for each segment. Differentiated marketing has become increasingly popular with companies eg. Coles Myer as it often creates higher sales levels than undifferentiated marketing. However, it also increases costs, as the marketing mix has to be modified in conjunction with different segments’ needs eg. different products, different advertising.

3. Concentrated marketing

A company with a concentrated marketing strategy concentrates on a large share of one or more segments. This strategy can be useful to a company with limited resources. Through this strategy, smaller companies are able to gain a strong market position in the segments they serve, thus providing a way for them to gain a foothold against larger companies with greater resource bases.

When choosing a market-coverage strategy, a company has to consider several factors:

company resources;

product variability;

product life cycle stage;

market variability; and

competitors’ marketing strategies.

Market Positioning

Product position is the complex set of perceptions, impressions and feelings which consumers hold for a product which creates for the product a place in their minds relative to competing products. It is the way consumers define the product on particular salient attributes. Positioning is unique in that it is not the actual attributes sometimes which positions a product in the minds of consumers, but the perceived attributes. A product can be a high quality product, but if consumers perceive that it is poor quality, it will not sell. On the contrary, a poor quality product with high-quality consumer perceptions will sell well.

Positioning is so important to marketers that they do not wish to leave their product’s positioning to chance. Instead, they design marketing mixes to create the desired positioning in the minds of their consumers. That is, it is the marketing mix which creates the product position.

Check out a stunning example of Product Positioning from TAGHeuer and also view their TV commercial…

Positioning Strategies

Marketers can position products based on several positioning strategies:

product attributes;

usage occasions;

users;

against a competitor;

away from competitors;

product classes; or

a combination of the above approaches.

Measuring and Forecasting Demand

Defining the Market

One of the first problems that faces anyone who is trying to forecast the demand for a product is to work out what is meant by the term ‘market’.

A market is the set of all actual and potential buyers of a product. An industry, on the other hand, consists of all sellers of a product. A potential market is the set of consumers who have some sort of interest in the product.

The term ‘market’ will have different meanings for an economist and the marketer. Marketers usually define a market as all the possible buyers of a product, but if you are planning the launch of a new product you may not necessarily wish to target ‘all’ the potential buyers. Many potential buyers do not in fact purchase the product for many years after the product is launched.

Defining the market is one of the first steps you will undertake in marketing a product. In your assignment, for instance, you must first decide how you wish to define your market. A market can be defined narrowly, or broadly. For example, the market for Coca-Cola can be defined broadly as the beverage market, or narrowly as the cola market. There is no single way to define the market. By defining the market broadly, you give yourself a larger group of actual and potential buyers of your product. However, you also have a larger number of competitors to contend with. And vice versa for defining a market narrowly. Hence, you need to take into account your company’s resources as well as strategies when making the decision on how to define the market for your product.

Forecasting demand

Forecasting the demand for a product or service is not a simple task. If the product is to be launched into an established market it is necessary to consider how the already established competitors might react. Another factor that always provides difficulties for the launch of a new product is that markets are rarely stable. Consumer preferences change. Technological advances and economic variables may intervene.

The most difficult markets in which to forecast demand are those in which the product is entirely unknown to the consumer. For example, when the microwave oven was first launched, everyone already had an oven of some sort. There were various health risks suggested, and consumers needed to learn to cook in a different way. How would you predict this type of market – who would you target the product to? These problems seem easy in retrospect, but at that time, they would have been quite difficult to overcome.

One of the initial decisions that needs to be made in terms of forecasting is the time period over which you are attempting to forecast. Sometimes it is important to have long range forecasts so that you can set up factories; in other cases production amounts may be able to be altered at relatively small cost and little inconvenience.

When you consider predicting demand you also need to think about whether the demand will be the same all through the year. If you launch a new ice-cream you could probably predict that demand would be highest when the weather was hottest. How would this affect your forecast?

You also need to consider whether you are going to try and estimate what the demand for a product will be now, under the current circumstances, and what demand may be in the future. Estimating the future demand for a product may involve also estimating what the likelihood of competitors entering the market will be, or what the reactions of current competitors is likely to be.