

Semester VI (program)
Marketing Management
Unit – 3: Marketing Segmentation

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Q What is market segmentation?

Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations

Q Why is market segmentation important for marketers?

Market segmentation makes it easier for marketers to personalize their marketing campaigns. By arranging their company's target market into segmented groups, rather than targeting each potential customer individually, marketers can be more efficient with their time, money, and other resources than if they were targeting consumers on an individual level. Grouping similar consumers together allows marketers to target specific audiences in a cost effective manner. Market segmentation also reduces the risk of an unsuccessful or ineffective marketing campaign. When marketers divide a market based on key characteristics and personalize their strategies based on that information, there is a much higher chance of success than if they were to create a generic campaign and try to implement it across all segments.

Marketers can also use segmentation to prioritize their target audiences. If segmentation shows that some consumers would be more likely to buy a product than others, marketers can better allocate their attention and resources.

Q How to use Segmentation Targeting and positioning (STP) to develop marketing strategies?

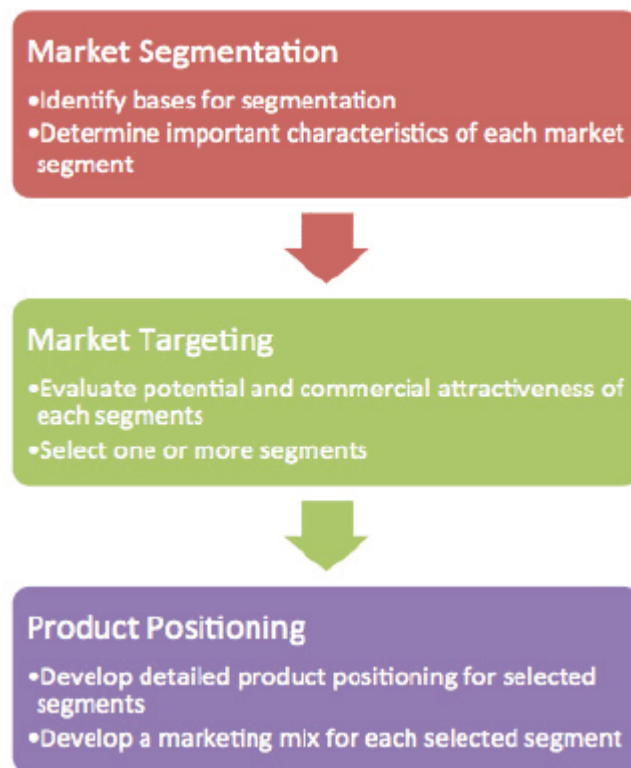
Today, Segmentation, Targeting and Positioning (STP) is a familiar strategic approach in Modern Marketing. It is one of the most commonly applied marketing models in practice. In our poll asking about the most popular marketing model it is the second most popular, only beaten by the venerable SWOT / TOWs matrix. This popularity is relatively recent since previously, marketing approaches were based more around products rather than customers. In the 1950s, for example, the main marketing strategy was 'product differentiation'.

The STP model is useful when creating marketing communications plans since it helps marketers to prioritise propositions and then develop and deliver personalised and relevant messages to

engage with different audiences. This is an audience rather than product focused approach to



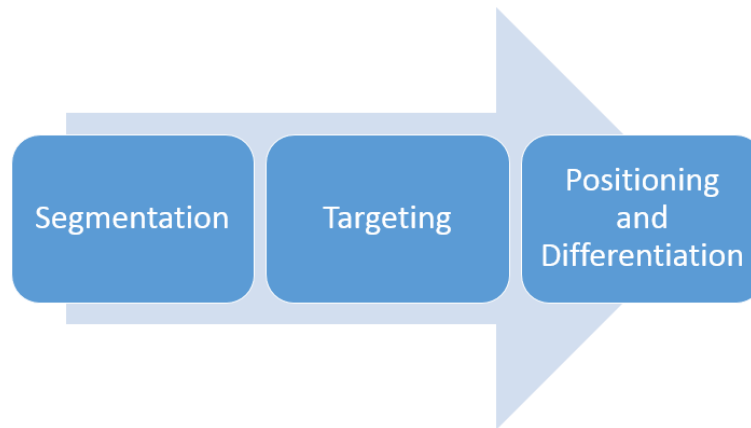
communications which helps deliver more relevant messages to commercially appealing audiences. The diagram below shows how plans can have the flow from
Audience options > Audience selection > Production positioning



In addition, STP focuses on commercial effectiveness, selecting the most valuable segments for a business and then developing a marketing mix and product positioning strategy for each segment.

Q. What are the factors influencing choice of bases ,market share and niche market?

Answer. We have learnt in the section Market Segmentation that a company cannot serve all consumers in the total market. Their variety and that of their needs is simply too large. Therefore, we have segmented the market, by dividing it up into small segments. Now, we should target those segments we can serve most efficiently and effectively: Market Targeting. This is the second step of setting up a marketing strategy.

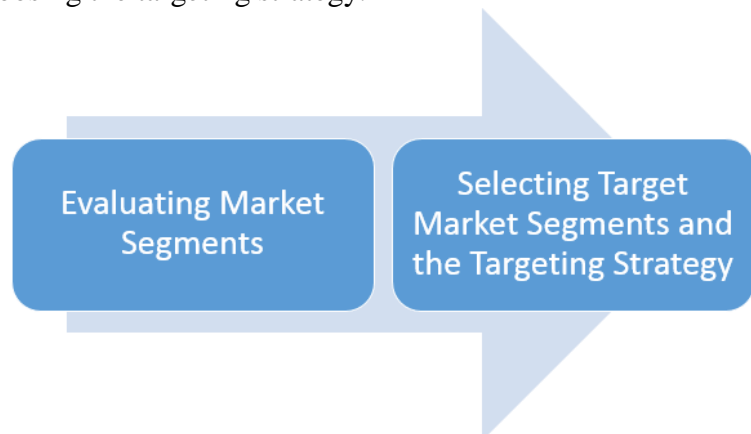


Market Segmentation, Market Targeting, Positioning and Differentiation – necessary for an integrated Marketing Strategy.

After having distinguished between the separate segments in a market, the company can select one or more of these segments to enter. Before doing this blindly, each segment should be assessed. Therefore, targeting is concerned with evaluating each segment's attractiveness for the company and selecting one or more segments to enter. The evaluation of segments is based on the question which segment the company can serve best. In other words, we should concentrate on and enter those segments in which we can generate the greatest customer value over time. Whether a company decides to enter one or more segments may also depend on its resources. If these are limited, it may be better served to focus on one or a few smaller segments, which we call market niches. In the best case, the company should look for segments competitors overlook or ignore. Alternatively, a company can decide to enter several segments. This may be based on a strong relation between the segment in terms of resembling needs, or on the company's widespread resources. For instance, clothing companies often target more than only one segment: males, females, children and so on. A large company such as a major car manufacturer might even decide serve all market segments by offering a complete range of products.

The Market Targeting Process

We will now look at the process of Market Targeting in two simple steps. Firstly, we have to evaluate the market segments. Then, we select target market segments. This last step goes in hand in hand with choosing the targeting strategy.



Market Targeting in two simple steps

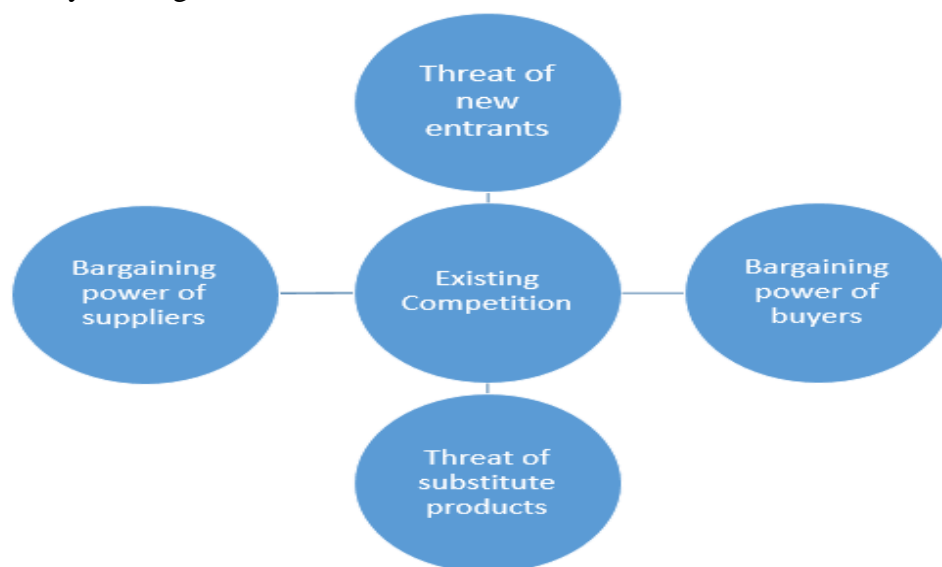
Evaluating Market Segments – Step one of Market Targeting

As said, we start with the market targeting process by assessing the different segments we identified in the market segmentation. But based on which criteria do we evaluate the segments?

In assessing market segments, a firm should consider three factors. These are:

- The segment size and growth
- The segment structural attractiveness
- The company objectives and resources.

In order to evaluate segments, the company needs to collect and analyse relevant data first. This data may include information on current segment sales, growth rates and anticipated profitability of segments. But even if we have these data, what is the right size and the right growth for our company? The largest or fastest-growing ones? Or small niche segments? There is no answer that applies to every company. In fact, it depends on the company itself. Therefore, the company objectives and resources are as important as the segment size, growth, or structural attractiveness. A smaller company could lack the skills and resources necessary to serve a large segment. Or such a small company might find that segment too competitive, not fitting its strategy. Therefore, some companies will focus on small segments that might appear less attractive to outsiders. For the company, though, it may be a more attractive and profitable choice. In addition to the segment size and growth, its structural attractiveness plays a significant role in market targeting. The major structural factors that are meant here affect the segment's long-term attractiveness. These structural factors are nothing else than the 5 Forces of Porter. With the 5 Forces model, the attractiveness of a market based on five factors can be assessed. Applied to market targeting, we firstly look at the competitors that are present in the segment. Clearly, a segment is less attractive if it already contains a high number of strong or aggressive competitors. In addition to competition, the existence of substitute products is important. The threat of substitution could limit prices and the profits we can earn in the segment. The bargaining power of buyers is also an influencing factor on the segment's attractiveness. If their bargaining power is large, they may force the company to lower prices, offer more they might set competitors against one another – obviously not a favourable situation. Finally, the power of suppliers affects the segment's attractiveness, since powerful suppliers could control prices, quality and quantity of the goods we need.



The Five Forces of Porter – Useful for Market Targeting

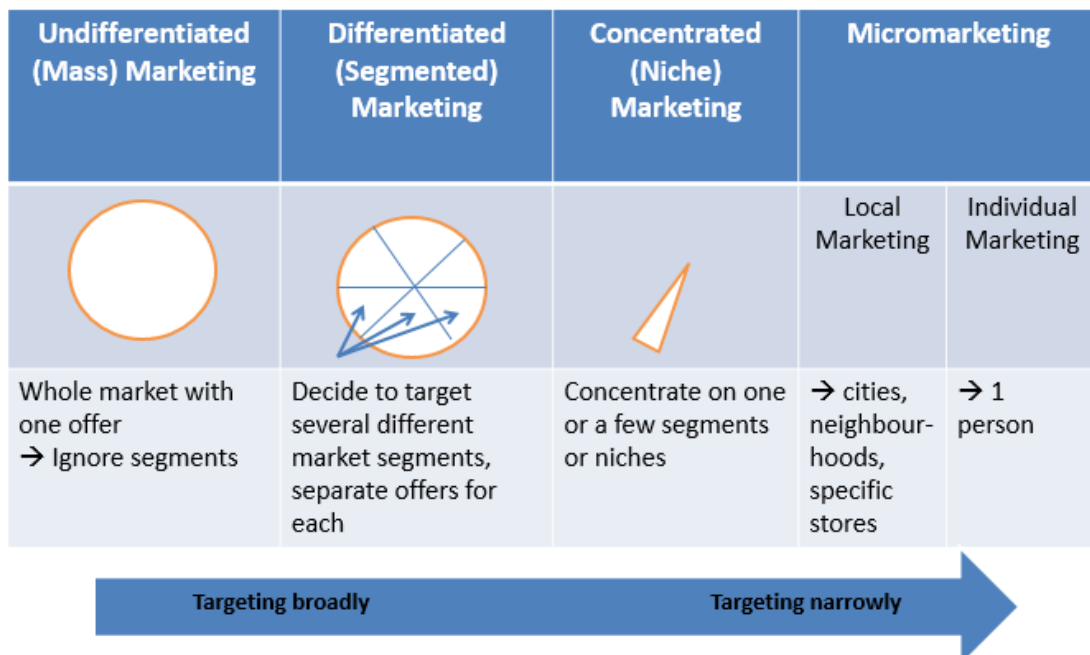
Certainly, a favourable size, growth and structural attractiveness of a segment is not all in market targeting. It has to match the company's own objectives and resources. If it does not fit the company's long-term objectives, why should we enter it? We might also lack the skills and resources that are required to succeed in a segment, even if it is attractive. An example: the economy segment of the automotive market is quite strongly growing. Nevertheless, it would not make that much sense for a company such as Ferrari to enter this segment. The reason simply is that the company would not be able to create superior customer value in this segment. Instead, it will be much more profitable for the company to focus on segments that meet its objectives and strategy.

Selecting Target Market Segments – Step two of Market Targeting

After having assessed the identified market segments, we can now go on with selecting the most profitable ones for the company. First of all, what is a target market? It refers to one set of buyers who share common needs or characteristics the firm decides to serve. So, the company has to decide which and how many segments it will target. Thus, we arrive at the actual core activity of market targeting. Market targeting can take different forms. These are referred to as levels of market targeting. A firm can target very broadly, which is called undifferentiated marketing. Market targeting can also be very narrow, which is called micromarketing. If it is somewhere in between, it might be differentiated or concentrated market targeting.

We will now look at these four different market targeting strategies that go hand in hand with the segments we choose.

Market Targeting Strategies



Four Market Targeting Strategies

Undifferentiated (Mass) Marketing – Broad Market Targeting

If we look at the whole market as a pie, following the undifferentiated market targeting strategy, we would focus on the whole pie. We would not select the slice that appears to be most delicious, but try to eat all of them. Thus, there is actually no targeting at all.

Following an undifferentiated (mass) market targeting strategy, the company decides to ignore differences between market segments and to focus on the whole market with one offer.

Therefore, the firm has to focus on what the whole market has in common in terms of the needs of consumers, rather than focusing on what is different. Since the company wants to address the whole market, it needs to design a product and a marketing programme that will meet the needs of and appeal to the largest possible number of buyers.

There might be some doubts whether this market targeting strategy is the right one. Certainly, difficulties can arise in developing a product that is capable of satisfying all consumers. In addition, companies that follow this strategy often struggle to compete with those companies that pursue a more focused strategy. Those focused companies simply do a better job at satisfying the unique needs of specific segments and niches, whose presence cannot be denied.

Differentiated (Segmented) Market Targeting

A differentiated market targeting strategy means that we decide to target several market segments and also design separate offers for each. To return to our previous example, the pie, we would now select the most delicious ones and focus on eating these.

Most large companies follow the differentiated market targeting strategy. For instance, a car company produces several different models of cars, and often even offers different brands. Fiat, for example, consists of more than the core brand Fiat. Think of Ferrari, Alfa Romeo and Lancia. Each brand targets its own segment of car buyers. P&G, to give another example, markets more than one detergent brand, each targeting a different segment. Thus, we select several segments to serve and design separate offers for each.

The reason of pursuing this market targeting strategy is that higher sales and a stronger position within each segment can be the consequence. Certainly, a strong position within several segments generates higher total sales than an undifferentiated marketing across all segments. However, differentiated market targeting strategies also increase costs. These come from the fact that different offerings have to be developed for each segment. Instead of producing one product 10,000 times, the company has to produce 10 products 1,000 times each. Also, the development of separate marketing plans for each segment involves additional research, analysis, planning and forecasting. Consequently, the company should weigh increased costs against the benefits when deciding on a differentiated market targeting strategy.

Concentrated (Niche) Market Targeting

To stay with our example: If we do not want to eat the whole pie, neither several slices, but only one small slice that has a special criterion others do not have such as a nut on top, we go for the concentrated (niche) market targeting strategy.

Following the concentrated market targeting strategy, the company focuses on one or a few segments or niches in a market. The aim is then to reach a large share in this segment or niche, instead of going after a small share of a large market.

Why should a company do so? Clearly it will be able to achieve a stronger market position in the chosen segment because its knowledge of the consumer needs in the niche is larger. Also, it may acquire a special reputation for delivering exactly what the consumer wants in that niche. The company can fine-tune its products, marketing programmes and prices to the specific needs of consumers in the niche. Therefore, its marketing becomes more effective. But marketing may

also become more efficient, because the company can tailor its offerings, channels and programmes to the needs of those consumers it can serve best and most profitably. The difference between a niche and a segment is the size. While a segment is rather large and will in most cases attract several competitors, a niche is quite small and may be focused on by few competitors only. Niching thus allows especially small companies to focus their limited resources on serving niches. The key is to find those niches that are overlooked by larger competitors.

Micromarketing – Narrow Market Targeting

In our example, micromarketing would mean to eat the nut on the already special slice only. In fact, micromarketing means nothing else than tailoring the marketing programmes and products to the needs and wants of individual consumers or local customer segments. This is the narrowest market targeting strategy possible. Instead of seeing a customer in every individual, we see the individual in every customer. We can tailor our products and programmes to suit the tastes of specific locations of specific individuals. Therefore, micromarketing can take the form of local marketing and individual marketing.

Under the local marketing strategy, we tailor brands and promotions to the specific needs and wants of groups of local customers. These may be cities, neighbourhoods etc.

The most extreme market targeting strategy option is individual marketing. Then, we tailor our marketing programmes and products to the needs of individual customers. This is also called one-to-one marketing, markets-of-one marketing and mass customisation. Today, this customisation for individual customers is facilitated by new technologies, such as databases, robotic production and flexible manufacturing.

In micromarketing, relationships with the few customers the company focuses on is of utmost importance. The company can simply not afford to lose one of the few, but highly profitable customers.

Factors influencing the Choice of the Market Targeting Strategy

Which market targeting strategy is chosen depends on many factors. None of the strategies above works best in every situation. Rather, the market targeting strategy depends on several characteristics of the company. When choosing a market targeting strategy, the company should consider:

- The company's resources. If resources are limited, a concentrated market targeting strategy might make more sense.
- The degree of product variability. In case of uniform products, such as apples or steel, undifferentiated marketing may be more suited. In case of products that can vary in design (cars, cameras etc.), more narrow differentiation and concentration is suitable.
- The product life cycle. When a company introduces a new product, it may be helpful to launch only one version. Undifferentiated or concentrated marketing might make most sense. In the mature stage, a segmented market targeting may be appropriate.
- Market variability. If you talk about a kind of product where all buyers have the same tastes, buy the same amounts etc., undifferentiated marketing makes sense.
- Competitors' marketing strategies. If competitors apply differentiated or concentrated market targeting strategies, using undifferentiated marketing may prove to be fatal. However, the firm might also gain an advantage by using a different market targeting strategy than competitors, especially if it can serve individual customers better by meeting their needs. Then, a concentrated market targeting strategy or micromarketing will work best.

Q. Generation of employment opportunities?

Ans. Generation of Employment Opportunities. Growing unemployment especially among qualified or educated youths is great challenge in many economies. ... An entrepreneur creates lot of employment opportunities for different sections of society. By generating opportunities, the entrepreneur adds to the economic growth.

Q. What is social welfare?

Ans. Social Welfare can be defined as the group of assistance programs designed to ensure the well being of a nation's citizens. In other words, it is a system that aims to provide quality care to society participants.

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