

MARKET SEGMENTATION (Compiled by Deep Banerjee, Marketingpundit.com)

Definition :

The division of a market into different homogenous groups of consumers is known as Market Segmentation. Market segmentation identifies portions of the market that are different from one another. Segmentation allows the firm to better satisfy the needs of its potential customers.

The Need for Market Segmentation :

The concept of market segmentation calls for understanding customers and satisfying their needs better than the competition. But different customers have different needs, and it rarely is possible to satisfy all customers by treating them alike.

Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers. Mass marketing allows economies of scale to be realized through mass production, mass distribution, and mass communication. The drawback of mass marketing is that customer needs and preferences differ and the same offering is unlikely to be viewed as optimal by all customers. If firms ignored the differing customer needs, another firm likely would enter the market with a product that serves a specific group, and the incumbent firms would lose those customers.

Target marketing on the other hand recognizes the diversity of customers and does not try to please all of them with the same offering. The first step in target marketing is to identify different market segments and their needs.

Market segmentation is a powerful and well-developed marketing tool. A properly segmented market can improve marketing, distribution, and manufacturing efficiency and generate additional profits and/or market share.

The basis selected for segmenting a market is very important. The creative application of alternative bases for segmentation can often provide a strategic advantage to an innovative firm.

A strategy of market segmentation must be supported at the very top of the organization and must permeate the organization

Market segmentation research, especially baseline segmentation research, must be carefully planned and executed, using the highest professional research standards. A wrongly segmented market is often worse than making the mass-market assumption.

Requirements of Market Segments :

In addition to having different needs, for segments to be practical they should be evaluated against the following criteria:

- Identifiable: the differentiating attributes of the segments must be measurable so that they can be identified.

- Accessible: the segments must be reachable through communication and distribution channels.
- Substantial: the segments should be sufficiently large to justify the resources required to target them.
- Unique needs: to justify separate offerings, the segments must respond differently to the different marketing mixes.
- Durable: the segments should be relatively stable to minimize the cost of frequent changes.

A good market segmentation will result in segment members that are internally homogenous and externally heterogeneous; that is, as similar as possible within the segment, and as different as possible between segments.

Bases for Segmentation in Consumer Markets :

Demographics are the basic qualities and characteristics of your market. They include age, gender, culture, employment, industry, income level, marital status, location and so on. On the other hand, psychographics are made up of the emotional and behavioral qualities of your market. They include the emotions, reasoning, history, psychology and thought processes behind people's decision to buy your product.

Consumer markets can be segmented on the following customer characteristics.

- Geographic
- Demographic
- Psychographic
- Behavioralistic

Geographic Segmentation

The following are some examples of geographic variables often used in segmentation.

- Region: by continent, country, state, or even neighborhood
- Size of metropolitan area: segmented according to size of population
- Population density: often classified as urban, suburban, or rural
- Climate: according to weather patterns common to certain geographic regions

Demographic Segmentation

Some demographic segmentation variables include:

- Age
- Gender
- Family size
- Family lifecycle
- Generation: baby-boomers, Generation X, etc.
- Income
- Occupation
- Education

- Ethnicity
- Nationality
- Religion
- Social class

Many of these variables have standard categories for their values. For example, family lifecycle often is expressed as bachelor, married with no children (DINKS: Double Income, No Kids), full-nest, empty-nest, or solitary survivor. Some of these categories have several stages, for example, full-nest I, II, or III depending on the age of the children.

Psychographic Segmentation

Psychographic segmentation groups customers according to their lifestyle. Activities, interests, and opinions (AIO) surveys are one tool for measuring lifestyle. Some psychographic variables include:

- Activities
- Interests
- Opinions
- Attitudes
- Values

Behavioralistic Segmentation

Behavioral segmentation is based on actual customer behavior toward products. Some behavioralistic variables include:

- Benefits sought
- Usage rate
- Brand loyalty
- User status: potential, first-time, regular, etc.
- Readiness to buy
- Occasions: holidays and events that stimulate purchases

Behavioral segmentation has the advantage of using variables that are closely related to the product itself. It is a fairly direct starting point for market segmentation.

Bases for Segmentation in Industrial Markets :

In contrast to consumers, industrial customers tend to be fewer in number and purchase larger quantities. They evaluate offerings in more detail, and the decision process usually involves more than one person. These characteristics apply to organizations such as manufacturers and service providers, as well as resellers, governments, and institutions.

Many of the consumer market segmentation variables can be applied to industrial markets. Industrial markets might be segmented on characteristics such as:

- Location
- Company type

- Behavioral characteristics

Location

In industrial markets, customer location may be important in some cases. Shipping costs may be a purchase factor for vendor selection for products having a high bulk to value ratio, so distance from the vendor may be critical. In some industries firms tend to cluster together geographically and therefore may have similar needs within a region.

Company Type

Business customers can be classified according to type as follows:

- Company size
- Industry
- Decision making unit
- Purchase Criteria

Behavioral Characteristics

In industrial markets, patterns of purchase behavior can be a basis for segmentation. Such behavioral characteristics may include:

- Usage rate
- Buying status: potential, first-time, regular, etc.
- Purchase procedure: sealed bids, negotiations, etc.

Communicator's role in Demographic –vs- Psychographic Segmentation :

Marketers run into trouble when they try to be "all things to all people" and attempt to market their product to everyone. Instead, try to discover the demographics and psychographics of your niche -- your specific (or greatest) market. Thereafter, market to that audience more than any other, and as often as possible.

Till recent times demographics have governed how communication target their campaigns. The problem is that even though individuals in a specific demographic category share some common characteristic, such as age, sex or income, the psychographics of these groups -- their values, motivations and beliefs -- are not homogeneous.

There are multiple motivations for a behavior. People in a specific demographic category have a wide range of attitudes. Although demographics can turn up objective facts, such as that your target customer owns a car or dines in a star hotel, they can't tell you why the person bought the car or why he prefers dining at star hotels only.

Psychographics can. They measure the motivations behind a behavior, including why individuals in a specific generation or income bracket will accept or reject a message, act on it or ignore it. Using psychographics can help communicators improve the quality and accountability of their campaigns by zeroing in on the most receptive audience for their message.

At a time when communication overload is common among all audiences, communicators must send relevant messages to those who are most receptive. Using psychographic segmentation to design and implement a communication strategy results in more effective and efficient campaigns, and changes the communicator into a strategist rather than a tactician, moving his or her work from that of an inexact art to an exact science.

As companies demand more from their communication programs, psychographic segmentation strategies are proving more useful than generalized averages or broad demographics in every phase of communication, from planning through implementation and evaluation.

Intelligence gathering :

In other words, demographics include the segment of the population that needs your product, whereas psychographics define those within your demographics who want your product. If you don't know this, you can easily conduct a survey as part of a marketing research campaign among your current clients, potential clients and clients of other similar products or companies. Don't underestimate your greatest source for marketing research--clients!

For example, here's a list of questions you should ask:

- * Why did your clients buy your product? If they didn't buy it, why not?
- * Why, specifically, did they buy from you or your competitor?
- * Why did they not buy from you or the competition?
- * Why did they buy from you at that specific time?
- * Why did they buy right away (on impulse) or take their time?
- * If they shopped around, why did they? Where did they go?
- * What do they like the most and the least about the product?
- * Would they refer you to others? Why or why not?
- * What specific benefits do they see in your product?
- * What specific benefits do they see in your competitor's product?

These are immensely important questions that can help you, guide you or even cause you to change your approach altogether. Don't discount the power of doing marketing research, especially within your own back yard. You want to know not only who buys from you but, more important, why they do. In other words, think psychographics and not just demographics.

Target your market :

To illustrate the difference between demographics and psychographics: Hair transplant doctors cater mainly to men who have experienced hair loss and are able to afford an expensive operation. Men -- bald men, specifically -- are potential patients because they may need more hair. Psychographics, on the other hand, go a little further. In this example, potential patients are men who not only need but also want more hair -- because not all of them do. (It's a matter of priorities, just like the type of clothing one chooses to wear).

Therefore, to target this market as precisely as possible and thus generate better leads, doctors must take the psychographic element into account, such as their patients' lifestyles, their interests, the types of industries in which they work (certain industries are image-related), as well as their previous buying habits (such as men who have already invested in other hair-replacement solutions) -- the more information the better.

If you arm yourself with as much of this type of information as possible beforehand, your chances of achieving greater success with your product will increase. Just as you can't be everything to everyone, you shouldn't be targeting everyone for everything.

Behavioral Segmentation :

Behavioral segmentation divides the market into groups based on their knowledge, attitudes, uses and responses to the product.

The following are commonly applied behavioral segments

1. **Occasions** – They group individuals according to the occasions when they purchase, use or think of buying a product.
2. **Benefits Sought** - Groups individuals according to the benefits they seek from the product.
3. **Usage Rate** – The behavior group individuals according to the level of usage they make of the product, be it **Heavy, Medium** or **Light** usage.
4. **User Status** - Groups individuals according to whether they are non-users, potential users, first-time users, regular users, or ex-users of a product
5. **Loyalty Status** - Groups individuals according to their level of loyalty to the product. 'Hard core loyals' always purchase the product / brand in question. Whilst 'Soft core loyals' will sometimes purchase another brand, and 'Switchers' will not specifically seek out a particular brand, but rather purchase the brand available to them at time of need, or that which was on sale.
6. **Buyer Readiness Stage** - Groups individuals according to their readiness to purchase the product. This segmentation model is particularly useful in formulating and monitoring the marketing communication strategies employed to move consumers towards purchase of a product or brand.

Behavioral Segmentation - Stages and their description :

Awareness - At the launch of a new product, the target market may not even be aware that the product exists, even established products seeking to enter new segments of the market may need to raise awareness of both their company and their product. The now infamous Benetton promotion campaigns had as one of their objectives, raising awareness of the Benetton brand, and what ever you think of the methods the company used, the fact remains that Benetton became one of the 5 most recognised brands in the world.

Knowledge - The audience may well be aware of a product or company, but still have either very little knowledge of what the product or company does, or possibly worse have the wrong impression of both the product and company. Hero Honda when it first entered the Indian 100 cc – 4 stroke motorcycle market in mid 1980's with the small Hero Honda CD100, had to go about educating the target market about both its products and the company itself, early promotional material therefore informed the audience about the size, history and strength of the company.

Liking - Knowing about a company or product does not mean the audience will necessarily like either, they may well be ambivalent, have no feeling at all, or even dislike the product. An audience with knowledge of a product must therefore be moved to the stage of liking the product. Promotion must seek to develop a positive attitude towards the product, or if market research identifies a poor product image in the market, promotion must seek to address these issues within its promotional campaign. Philips with their energy saving CFLs addressed head-on the target markets concerns, that to save energy usage of CFLs is a must, cleverly turning what the audience may well have originally perceived as negatives into positives of using Philips CFLs.

Preference - Given the level of competition in markets today, it is often the case that the potential customer will like several competing products on the market, promotion must now therefore seek to develop within the audience a preference for their product. Through research the business must establish the key features of the product in the eyes of the target market, these might include efficiency, performance, economy, value, and quality. Promotion will now therefore underline the advantages of the product in terms of these key features, which differentiate it from the competition. With effect from mid 2007, LG Electronics in India have withdrawn price discounts for consumers and have been focusing on promoting high quality and innovative products.

Conviction - An audience which prefers a particular product, may still not buy that product based on pure preference. In fact many customers will purchase a competitors product which they did not prefer purely because they were convinced it was the right decision at that time. Promotion must now build confidence in the audience that their preference for the product is justified, and convince them through a range of promotion tools including for example the use of positive press reviews, and expert recommendations that their product is the right one to buy.

Purchase - The last stage in buyer-readiness is purchase of the product, unfortunately conviction to buy may still not result in actual purchase, this may for example be due to the individuals current financial situation. Many customers will need further persuasion to make the purchase. Promotion may offer Sales Promotion discounts, or Personal Selling through Sales Representatives, in order to convert preference and conviction into a sale.