**LEARNER GUIDE**

**Demonstrate an understanding of the target market**

Unit Standard 252203

Level 4 Credits 4

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PERSONAL INFORMATION

|  |  |
| --- | --- |
| **NAME** |  |
| **CONTACT ADDRESS** |  |
|  |
| **Code** |  |
| **Telephone (H)** |  |
| **Telephone (W)** |  |
| **Cellular** |  |
| **Learner Number** |  |
| **Identity Number** |  |
|  | |
| **EMPLOYER** |  |
| **EMPLOYER CONTACT ADDRESS** |  |
|  |
| **Code** |  |
| **Supervisor Name** |  |
| **Supervisor Contact Address** |  |
|  |
| **Code** |  |
| **Telephone (H)** |  |
| **Telephone (W)** |  |
| **Cellular** |  |

INTRODUCTION

#### Welcome to the learning programme

Follow along in the guide as the training practitioner takes you through the material. Make notes and sketches that will help you to understand and remember what you have learnt. Take notes and share information with your colleagues. Important and relevant information and skills are transferred by sharing!



This learning programme is divided into sections. Each section is preceded by a description of the required outcomes and assessment criteria as contained in the unit standards specified by the South African Qualifications Authority. These descriptions will define what you have to know and be able to do in order to be awarded the credits attached to this learning programme. These credits are regarded as building blocks towards achieving a National Qualification upon successful assessment and can never be taken away from you!

Structure

### Programme methodology



The programme methodology includes facilitator presentations, readings, individual activities, group discussions and skill application exercises.

Know what you want to get out of the programme from the beginning and start applying your new skills immediately. Participate as much as possible so that the learning will be interactive and stimulating.

The following principles were applied in designing the course:

* Because the course is designed to maximise interactive learning, you are encouraged and required to participate fully during the group exercises
* As a learner you will be presented with numerous problems and will be required to fully apply your mind to finding solutions to problems before being presented with the course presenter’s solutions to the problems
* Through participation and interaction the learners can learn as much from each other as they do from the course presenter
* Although learners attending the course may have varied degrees of experience in the subject matter, the course is designed to ensure that all delegates complete the course with the same level of understanding
* Because reflection forms an important component of adult learning, some learning resources will be followed by a self-assessment which is designed so that the learner will reflect on the material just completed.

This approach to course construction will ensure that learners first apply their minds to finding solutions to problems before the answers are provided, which will then maximise the learning process which is further strengthened by reflecting on the material covered by means of the self-assessments.

#### Different role players in delivery process

* Learner
* Facilitator
* Assessor
* Moderator

### What Learning Material you should have

This learning material has also been designed to provide the learner with a comprehensive reference guide.

It is important that you take responsibility for your own learning process; this includes taking care of your learner material. You should at all times have the following material with you:

|  |  |
| --- | --- |
| **Learner Guide** | **This learner guide is your valuable possession:**  This is your textbook and reference material, which provides you with all the information you will require to meet the exit level outcomes.  During contact sessions, your facilitator will use this guide and will facilitate the learning process. During contact sessions a variety of activities will assist you to gain knowledge and skills.  Follow along in the guide as the training practitioner takes you through the material. Make notes and sketches that will help you to understand and remember what you have learnt. Take and share information with your colleagues. Important and relevant information and skills are transferred by sharing!  This learning programme is divided into sections. Each section is preceded by a description of the required outcomes and assessment criteria as contained in the unit standards specified by the South African Qualifications Authority. These descriptions will define what you have to know and be able to do in order to be awarded the credits attached to this learning programme. These credits are regarded as building blocks towards achieving a National Qualification upon successful assessment and can never be taken away from you! |
| **Formative Assessment Workbook** | The Formative Assessment Workbook supports the Learner Guide and assists you in applying what you have learnt.  The formative assessment workbook contains classroom activities that you have to complete in the classroom, during contact sessions either in groups or individually.  You are required to complete all activities in the Formative Assessment Workbook.  The facilitator will assist, lead and coach you through the process.  These activities ensure that you understand the content of the material and that you get an opportunity to test your understanding. |

### Different types of activities you can expect

To accommodate your learning preferences, a variety of different types of activities are included in the formative and summative assessments. They will assist you to achieve the outcomes (correct results) and should guide you through the learning process, making learning a positive and pleasant experience.



The table below provides you with more information related to the types of activities.

| **Types of Activities** | **Description** | **Purpose** |
| --- | --- | --- |
| **Knowledge Activities** | You are required to complete these activities on your own. | These activities normally test your understanding and ability to apply the information. |
| **Skills Application Activities** | You need to complete these activities in the workplace | These activities require you to apply the knowledge and skills gained in the workplace |
| **Natural Occurring Evidence** | You need to collect information and samples of documents from the workplace. | These activities ensure you get the opportunity to learn from experts in the industry.  Collecting examples demonstrates how to implement knowledge and skills in a practical way |

### Learner Administration



#### Attendance Register

You are required to sign the Attendance Register every day you attend training sessions facilitated by a facilitator.

#### Programme Evaluation Form

On completion you will be supplied with a “Learning programme Evaluation Form”. You are required to evaluate your experience in attending the programme.

Please complete the form at the end of the programme, as this will assist us in improving our service and programme material. Your assistance is highly appreciated.

### Assessments

The only way to establish whether a learner is competent and has accomplished the specific outcomes is through the assessment process. Assessment involves collecting and interpreting evidence about the learners’ ability to perform a task.

To qualify and receive credits towards your qualification, a registered Assessor will conduct an evaluation and assessment of your portfolio of evidence and competency.

This programme has been aligned to registered unit standards. You will be assessed against the outcomes as stipulated in the unit standard by completing assessments and by compiling a portfolio of evidence that provides proof of your ability to apply the learning to your work situation.



**How will Assessments commence?**

#### Formative Assessments

The assessment process is easy to follow. You will be guided by the Facilitator. Your responsibility is to complete all the activities in the Formative Assessment Workbook and submit it to your facilitator.

#### Summative Assessments

You will be required to complete a series of summative assessments. The Summative Assessment Guide will assist you in identifying the evidence required for final assessment purposes. You will be required to complete these activities on your own time, using real life projects in your workplace or business environment in preparing evidence for your Portfolio of Evidence. Your Facilitator will provide more details in this regard.

To qualify and receive credits towards your qualification, a registered Assessor will conduct an evaluation and assessment of your portfolio of evidence and competency.

### Learner Support

The responsibility of learning rests with you, so be proactive and ask questions and seek assistance and help from your facilitator, if required.



Please remember that this Skills Programme is based on outcomes based education principles which implies the following:

* You are responsible for your own learning – make sure you manage your study, research and workplace time effectively.
* Learning activities are learner driven – make sure you use the Learner Guide and Formative Assessment Workbook in the manner intended, and are familiar with the workplace requirements.
* The Facilitator is there to reasonably assist you during contact, practical and workplace time for this programme – make sure that you have his/her contact details.
* You are responsible for the safekeeping of your completed Formative Assessment Workbook and Workplace Guide
* If you need assistance please contact your facilitator who will gladly assist you.
* If you have any special needs please inform the facilitator

### Learner Expectations

Please prepare the following information. You will then be asked to introduce yourself to the instructor as well as your fellow learners



|  |
| --- |
| Your name: |
|  |
|  |
| The organisation you represent: |
|  |
|  |
| Your position in organisation: |
|  |
|  |
| What do you hope to achieve by attending this course / what are your course expectations? |
|  |
|  |
|  |
|  |
|  |

# UNIT STANDARD 252203

#### Unit Standard Title

Demonstrate an understanding of the target market

#### NQF Level

4

#### Credits

4

#### Purpose

The person credited with this unit standard will be able to describe market segmentation and related processes while identifying positioning strategies for chosen segments. The learner will be able to explain market segmentation in relation to the market mix.

The qualifying learner is capable of:

* Describing market segmentation and market segmentation processes.
* Explaining positioning strategies for chosen segments.
* Explaining market segmentation in relation to the marketing mix.

#### Learning Assumed To Be In Place And Recognition Of Prior Learning

Learners accessing this unit standard will have demonstrated competence in:

* Communication at NQF Level 3 or equivalent.
* Mathematical Literacy at NQF Level 3 or equivalent.

#### Unit Standard Range

* Marketing including all forms of marketing communications, direct marketing and relationship marketing, sponsorship, event marketing, sales promotions, public relations and alternative strategies.
* Standard applies to marketing management, customer management, marketing communications and marketing research.
* Product life cycles including development, introduction, growth, maturity, saturation and decline.
* Positioning and repositioning including needs, wants, features, advantages, benefits, usage, users and competition.
* Marketing mix elements including product, price, place and promotion. Marketing including all forms of marketing communications, direct marketing and relationship marketing, sponsorship, event marketing, sales promotions, public relations and alternative strategies.

#### Specific Outcomes and Assessment Criteria:

**Specific Outcome 1**

Describe market segmentation and market segmentation processes.

**Assessment Criteria**

* The purpose of market segmentation is explained in terms of the division of the market into groupings with similar characteristics, needs, wants and behaviours.
* Market segmentation implications are explained in relation to improved marketing efforts.
* The potential for segmentation is assessed and explained in terms of better access and return on investment.
* Geographic, demographic, psychographic and behaviouristic segmentation bases are identified and explained.
* Profiles for market segmentation are identified and discussed according to common descriptors.

**Specific Outcome 2**

Explain positioning strategies for chosen segments.

**Assessment Criteria**

* Target market segments are identified and explained according to common needs and characteristics.
* Positioning variables are identified for each target market and explained in terms of needs and aspirations.

**Specific Outcome 3**

Explain market segmentation in relation to the marketing mix.

**Assessment Criteria**

* Changes to marketing mix variables and their positioning are identified and explained for different market segments.
* Changes to marketing mix variable and their positioning are identified and explained with regard to significant cultural influences.
* Monitoring mechanisms for tracking changes in buying behaviour of market segments are explained in accordance with established methods.

#### Unit Standard Accreditation And Moderation Options

* An individual wishing to be assessed (including through RPL) against this unit standard may apply to an assessment agency, assessor or provider institution accredited by the relevant ETQA
* Anyone assessing a learner against this unit standard must be registered as an assessor with the relevant ETQA.
* Any institution offering learning that will enable achievement of this unit standard or assessing this unit standard must be accredited as a provider with the relevant ETQA.
* Moderation of assessment will be conducted by the relevant ETQA at its discretion.

#### Unit Standard Essential Embedded Knowledge

* Marketing mix elements.
* Methods and techniques for determining market segmentation.
* Methods and techniques for identifying target market segments.
* Market segmentation and marketing mix implications.

#### Critical Cross-field Outcomes (CCFO):

**Unit Standard CCFO Identifying**

Identify and solve problems pertaining to the understanding of the target market.

**Unit Standard CCFO Collecting**

Collect, evaluate, organise and critically evaluate information so that a greater understanding of the target market and market segmentations is obtained.

**Unit Standard CCFO Communicating**

Communicate effectively when explaining and describing all aspects related to the target market.

**Unit Standard CCFO Demonstrating**

Understand the world as a set of related systems in that the link between marketing segmentation and the marketing mix is assessed.

# MARKET SEGMENTATION AND SEGMENTATION PROCESS

#### ***Specific Outcome 1***

Describe market segmentation and market segmentation processes.

#### ***Assessment Criteria***

* The purpose of market segmentation is explained in terms of the division of the market into groupings with similar characteristics, needs, wants and behaviours.
* Market segmentation implications are explained in relation to improved marketing efforts.
* The potential for segmentation is assessed and explained in terms of better access and return on investment.
* Geographic, demographic, psychographic and behaviouristic segmentation bases are identified and explained.
* Profiles for market segmentation are identified and discussed according to common descriptors.

## Market Segmentation

The purpose for segmenting a market is to allow your marketing/sales program to focus on the subset of prospects that are "most likely" to purchase your offering.

If done properly this will help to insure the highest return for your marketing/sales expenditures. Depending on whether you are selling your offering to individual consumers or a business, there are definite differences in what you will consider when defining market segments.

Markets consist of customers with similar needs. For example, consider the wide variety of markets that exist to meet the following needs

* Eat
* Drink
* Exercise
* Travel
* Socialise
* Educate

As you can imagine, such markets (if they were not further divided) would be very broad. Customers in a market are not the same.

For example, within the market to provide meals, customers differ in the:

* Benefits they want
* Amount they are able to or willing to pay
* Media (e.g. television, newspapers, and radio stations) they see
* Quantities they buy
* Time and place that they buy

It therefore makes sense for businesses to segment the overall market and to target specific segments of a market so that they can design and deliver more relevant products and services. A market segment can be defined as follows:

“It is a customer group within the market that has special characteristics which are significant to marketing strategy.”

Segmentation is most often applied to markets, but it is equally relevant to distribution channels and customers. However, similar principles of how to segment apply to all three.

### Overall definition of segmentation

Segmentation involves subdividing markets, channels or customers into groups with different needs, to deliver tailored propositions which meet these needs as precisely as possible.

#### Why segment markets?

There are several important reasons why businesses should attempt to segment their markets carefully. These are summarised below

#### Better matching of customer needs

Customer needs differ. Creating separate offers for each segment makes sense and provides customers with a better solution

#### Enhanced profits for business

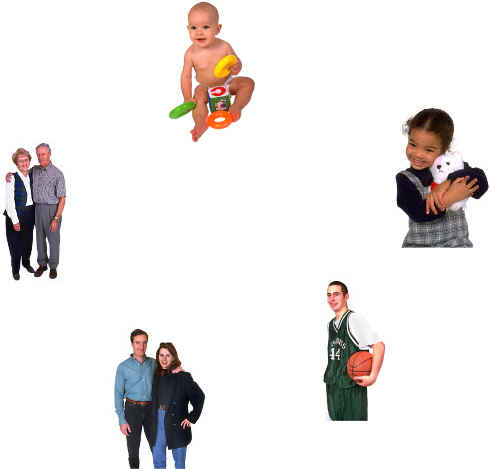
Customers have different disposable income. They are, therefore, different in how sensitive they are to price. By segmenting markets, businesses can raise average prices and subsequently enhance profits.

#### Better opportunities for growth

Market segmentation can build sales. For example, customers can be encouraged to "trade-up" after being introduced to a particular product with an introductory, lower-priced product

#### Retain more customers

Customer circumstances change, for example they grow older, form families, change jobs or get promoted, change their buying patterns.



By marketing products that appeal to customers at different stages of their life ("life-cycle"), a business can retain customers who might otherwise switch to competing products and brands

#### Target marketing communications

Businesses need to deliver their marketing message to a relevant customer audience. If the target market is too broad, there is a strong risk that (1) the key customers are missed and (2) the cost of communicating to customers becomes too high / unprofitable.

By segmenting markets, the target customer can be reached more often and at lower cost

#### Gain share of the market segment

Unless a business has a strong or leading share of a market, it is unlikely to be maximising its profitability.

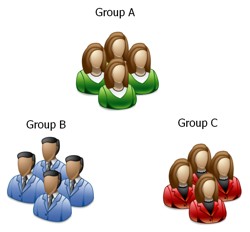
Minor brands suffer from lack of scale economies in production and marketing, pressures from distributors and limited space on the shelves.

Through careful segmentation and targeting, businesses can often achieve competitive production and marketing costs and become the preferred choice of customers and distributors.

In other words, segmentation offers the opportunity for smaller firms to compete with bigger ones.

### Bases of segmentation

It is widely thought in marketing that than segmentation is an art, not a science. The key task is to find the variable, or variables that split the market into actionable segments.

There are two types of segmentation variables:

(1) Needs

(2) Profilers

The basic criteria for segmenting a market are customer needs. To find the needs of customers in a market, it is necessary to undertake market research.

Profilers are the descriptive, measurable customer characteristics (such as location, age, nationality, gender, income) that can be used to inform a segmentation exercise.

The most common profilers used in customer segmentation include the following:

### Profiler Examples

#### Geographic

* Region of the country
* Urban or rural

#### Demographic

* Age, sex, family size
* Income, occupation, education
* Religion, race, nationality

#### Psychographic

* Social class
* Lifestyle type
* Personality type

#### Behavioural

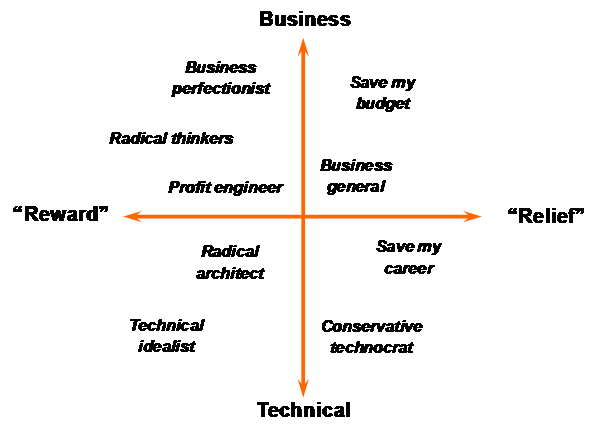
* Product usage - e.g. light, medium ,heavy users
* Brand loyalty: none, medium, high
* Type of user (e.g. with meals, special occasions)

## Behavioural segmentation

Behavioural segmentation divides customers into groups based on the way they respond to, use or know of a product. Behavioural segments can group consumers in terms of:

#### Occasions

When a product is consumed or purchased. For example, cereals have traditionally been marketed as a breakfast-related product. Kellogg’s have always encouraged consumers to eat breakfast cereals on the "occasion" of getting up. More recently, they have tried to extend the consumption of cereals by promoting the product as an ideal, anytime snack food.

****

#### Usage

Some markets can be segmented into light, medium and heavy user groups

#### Loyalty

Loyal consumers - those who buy one brand all or most of the time - are valuable customers. Many companies try to segment their markets into those where loyal customers can be found and retained compared with segments where customers rarely display any product loyalty.

The holiday market is an excellent example of this. The "mass-market" overseas tour operators such as Thomson have very low levels of customer loyalty - which means that customers need to be recruited again every year.

Compare this with specialist, niche operators such as Thompsons which has customers who have travelled with the brand in each of the last 15-20 years.

#### Benefits Sought

This is an important form of behavioural segmentation. Benefit segmentation requires Marketers to understand and find the main benefits customers look for in a product.

An excellent example is the toothpaste market where research has found four main "benefit segments" - economic; medicinal, cosmetic and taste.

### Demographic segmentation

Demographic segmentation consists of dividing the market into groups based on variables such as age, gender family size, income, occupation, education, religion, race and nationality. As you might expect, demographic segmentation variables are amongst the most popular bases for segmenting customer groups.

This is partly because customer wants are closely linked to variables such as income and age. Also, for practical reasons, there is often much more data available to help with the demographic segmentation process. The main demographic segmentation variables are summarised below:

#### Age

Consumer needs and wants change with age although they may still wish to consumer the same types of product. So Marketers design, package and promote products differently to meet the wants of different age groups. Good examples include the marketing of toothpaste (contrast the branding of toothpaste for children and adults) and toys (with many age-based segments).

#### Life-cycle stage

A consumer stage in the life-cycle is an important variable - particularly in markets such as leisure and tourism. For example, contrast the product and promotional approach of Club 18-30 holidays with the slightly more refined and sedate approach adopted by Saga Holidays.

#### Gender

Gender segmentation is widely used in consumer marketing. The best examples include clothing, hairdressing, magazines and toiletries and cosmetics.

#### Income

Income is another popular basis for segmentation. Many companies target affluent consumers with luxury goods and convenience services. Good examples include Coutts bank; Moet & Chandon champagne and Elegant Resorts - an up-market travel company.

By contrast, many companies focus on marketing products that appeal directly to consumers with relatively low incomes. Examples include Aldi (a discount food retailer), Airtours holidays, and discount clothing retailers such as TK Maxx.

#### Social class

Many Marketers believe that a consumers "perceived" social class influences their preferences for cars, clothes, home furnishings, leisure activities and other products & services. There is a clear link here with income-based segmentation.

#### Lifestyle

Marketers are increasingly interested in the effect of consumer "lifestyles" on demand. Unfortunately, there are many different lifestyle categorisation systems, many of them designed by advertising and marketing agencies as a way of winning new marketing clients and campaigns!

### Geographic segmentation

Geographic segmentation tries to divide markets into different geographical units: these units include:

**Regions:** e.g. in South Africa these might be KZN, Western Cape, Gauteng, Eastern Cape, Freestate, (at a more detailed level) counties or major metropolitan areas

**Countries:** perhaps categorised by size, development or membership of geographic region

**City / Town size:** e.g. population within ranges or above a certain level

**Population density:** e.g. urban, suburban, rural, semi-rural

**Climate:** e.g. Northern, Southern

Geographic segmentation is an important process - particularly for multi-national and global businesses and brands.

Many such companies have regional and national marketing programmes which alter their products, advertising and promotion to meet the individual needs of geographic units.

### Let’s recap...

Segmentation is the generation of categories of needs within the market, for your specific product. The first thing you can establish is a category of need that your offering satisfies. The following classifications may help.

#### For businesses:

• **Strategic** - your offering is in some way important to the enterprise mission, objectives and operational oversight. For example, a service that helped evaluate capital investment opportunities would fall into this domain of influence. The purchase decision for this category of offering will be made by the prospect's top level executive management.

• **Operations** - your offering affects the general operating policies and procedures. Examples might be, an employee insurance plan or a corporate wide communications system. This purchase decision will be made by the prospect's top level operations management.

• **Functional** - your offering deals with a specific function within the enterprise such as data processing, accounting, human resources, plant maintenance, engineering design, manufacturing, inventory control, etc. This is the most likely domain for a product or service, but you must recognise that the other domains may also get involved if the purchase of the product or service becomes a high profile decision. This purchase decision will be made by the prospect's functional management.

#### For the individual consumer:

• **Social Esteem or Pleasure** - your offering satisfies a purely emotional need in the consumer. Examples are a mink coat or a diamond ring. There are some products that are on the boundary between this category and the Functional category such as a Rolex watch (a Timex would satisfy the functional requirement and probably keep time just as well).

• **Functional** - your offering meets a functional requirement of the consumer such as a broom, breakfast cereal or lawnmower.

#### Segmentation of Needs

Then you should establish what the need is and who is most likely to experience that need.

Your segmentation will be determined by a match between the benefits offered by your offering and the need of the prospect.

Some "need" categories for segmentation include:

#### Reduction in expenses

Prospects might be businesses that are downsizing (right sizing), businesses that have products in the mature stage of their life cycle or individuals with credit rating problems.

#### Improved cash flow

Prospects might be businesses that have traditionally low profit margins, businesses that have traditionally high inventory costs or individuals that live in expensive urban areas.

#### Improved productivity

Prospects might be businesses that have traditionally low profit margins, businesses that have recently experienced depressed earnings or individuals with large families.

#### Improved manufacturing quality

Prospects might be businesses with complex, multi-discipline manufacturing processes.

#### Improved service delivery

Prospects might be service businesses in highly competitive markets, product businesses requiring considerable post-sale support or individuals in remote or rural areas.

#### Improved employee working conditions/benefits

Prospects might be businesses where potential employees are in short supply.

#### Improvement in market share/competitive position

Prospects might be new entrants to a competitive market.

#### Need for education

Prospects might be businesses or individuals looking for books on business planning, or seminars on Total Quality Management.

#### Involvement with social trends

Prospects might be businesses concerned with environmental protection, employee security, etc. or individuals who believe in say 'no' to drugs, anti-crime, etc.

#### Specific - relating to product/service characteristics

Prospects might be businesses or individuals interested in safety, security, economy, comfort, speed, quality, durability, etc.

# POSITIONING STRATEGIES & MARKET SEGMENTATION

**Specific Outcome 2**

Explain positioning strategies for chosen segments.

**Assessment Criteria**

* Target market segments are identified and explained according to common needs and characteristics.
* Positioning variables are identified for each target market and explained in terms of needs and aspirations.

## Market Targeting

Market segmentation reveals the firm’s market segment opportunities. The firm must now evaluate the various segments and decide how many and which segments it can serve best. We will now look at how companies evaluate and select target markets.

### Evaluating Market Segments

In evaluating different market segments, a firm must look at three factors: segment size and growth, segment structural attractiveness and company objectives and resources. The company must first collect and analyse data on current segment sales, growth rates and expected profitability for various segments.

It will be interested in segments that have the right size and growth characteristics. But “right size and growth” is a relative matter. The largest, fastest growing segments are not always the most attractive ones for every company.

Smaller companies may lack the skills and resources needed to serve the larger segments. Such companies may target segments that are smaller and less attractive, in an absolute sense, but are potentially more profitable for them.

The company also needs to examine major structural factors that affect long-run segment attractiveness. For example; a segment is less attractive if it already contains many strong and aggressive competitors.

The existence of many actual or potential substitute products may limit prices and the profits that can be earned in a segment. The relative power of buyers also effects segment attractiveness.

Buyers with strong bargaining power relative to sellers will try to force the prices down, demand more services, and set competitors against one another; all at the expense of the sellers’ profitability.

Finally, a segment may be less attractive if it contains powerful suppliers who can control prices or reduce the quality or quantity of ordered goods or services.

Even if a segment has the right size and growth and is structurally attractive, the company must consider its own objectives and resources. Some attractive segments can be dismissed quickly because they do not mesh with the companies’ long-run objectives.

Or the company may lack the skills and resources needed to succeed in an attractive segment. The company should enter only segments in which it can offer superior value and gain advantages over competitors.

## Selecting Target Market Segments

After evaluating different segments, the company must now decide which and how many segments it will target.

A target market consists of a set of buyers who share common needs or characteristics that the company decides to serve.

Because buyers have unique needs and wants, a seller could potentially view each buyer as a separate target market. Ideally, then, a seller might design a separate marketing program for each buyer.

However, although some companies do attempt to serve buyers individually, most face larger numbers of smaller buyers and do not find individual targeting can be carried out at several different levels.

The figure below shows that companies can target very broadly (undifferentiated marketing), vary narrowly (micromarketing) or somewhere in between (differentiated or concentrated marketing).

### Undifferentiated Marketing

Using an undifferentiated marketing (or mass marketing) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer.

This mass marketing strategy focuses on what is common in the needs of consumers rather than on what is different. The company designs a product and a marketing program that will appeal to the largest amount of buyers. As noted earlier, most modern marketers have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers.

Moreover, mass marketers often have trouble competing with more focussed firms that do a better job of satisfying the needs of specific segments and niches.

### Differentiated Marketing

Using a differentiated marketing (or segmented marketing) strategy, a firm decides to target several market segments and designs separate offers for each.

Car manufacturers try to produce a car for every “purse, purpose and personality”. Clothing manufacturers and outlets are opening a variety of different scoped outlets but all under a similar name; all done to serve the varied needs of different fashion segments within the family.

Estee Lauder offers hundred of different products aimed at carefully defined segments.

*Estee Lauder is an expert in creating differentiated brands that serve the tastes of different market segments. Five of the top ten best selling prestige perfumes in the world belong to Estee Lauder.*



*So does eight of the top ten prestige make-up brands. There’s the original Estee Lauder brand, with its gold and blue packaging which appeals to the older 501 baby boomers.*



*Then there’s Clinique, the company’s most popular brand, perfect for the middle-aged mom with no time to waste for younger women attracted to its classic free gift offers.*

*For young, fashion-forward consumers there’s MAC, which provides make-up for clients such as Pamela Anderson and Marilyn Manson.*

*For the young and trendy, there’s the Stila line, containing lots of shimmer and uniquely packaged in clever containers.*

*For the new age type, there’s the upscale Aveda, with its salon, makeup and lifestyle products based on the art and science of earthly origins and pure flower and plant essences, celebrating the connection between Mother Nature and human nature.*

By offering product and marketing variations to segments, companies hope for higher sales and stronger position within each market segment. Developing a stronger position within several segments creates more total sales than undifferentiated marketing across all segments.

Estee Lauder and Clinique brands alone reap a combined 40% share of the prestige cosmetics market. But differentiated marketing also increases the costs of doing business.

A firm usually finds it more expensive to develop and produce, say 10 units of 10 different products, than 100 units of one product.

Developing separate marketing plans for the separate segments requires extra marketing research, forecasting, sales analysis, promotion planning and channel management.

Trying to reach different market segments with different advertising also leads to an increased promotion cost. Thus, the company must weigh increased costs when deciding on a differentiated marketing strategy.

### Concentrated Marketing

A third market coverage strategy, concentrated marketing (or niche marketing), is especially appealing when company resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few smaller segments or niches.

For example, Oshkosh Truck is the world’s largest producer of airport rescue trucks and front loading concrete mixers. Tetra sells 80% of the world’s tropical fish food, and Steiner Optical captures 80% of the world’s binoculars market.

Through concentrated marketing, the firm achieves a strong market position because of its greater knowledge of consumer needs in the niches it serves and the special reputation it acquires.

It can market more effectively by fine-tuning its products, prices and programs to the needs of carefully defined segments. It can also market more efficiently, targeting its products or services, channels and communications programs toward only consumers that it can serve best and most profitably.

Whereas segments are fairly large and normally attract several competitors, niches are small and may attract only one or a few competitors.

Niching offers smaller companies an opportunity to compete by focussing their limited resources on serving niches that may be unimportant to or overlooked by larger competitors.

Consider Apple computers. Although it once enjoyed a larger than 13% market share, Apple is now a PC market nicher, capturing less than 2% of the personal computer market worldwide.

Rather than competing head on with other PC makers as they slash prices and focus on volume, Apple invests in research and development, making it the industry trendsetter.

For example; when the company introduced the iPod and iTunes, it captured more than 70% of the music download market. Such innovation has created a loyal base of consumers who are willing to pay more for Apple’s cutting edge products.

Many companies start as nichers and get a foothold against larger, more resourceful competitors and then grow into broader competitors.

For example; an American airline called SouthWest began by serving interstate, no-frills commuters in Texas but is now one of the largest airlines in the Americas. In contrast, as markets change, some mega marketers develop niche markets to create sales growth. For example: recent years, Pepsi has introduced several niche products such as Mountain Dew Red and Livewire.

Today, the low cost of setting up shop on the internet makes it even more profitable to serve seemingly minuscule niches. Small businesses, in particular, are realising riches from serving small niches on the Web.

The following is an example of an actual “Webpreneur” who achieved astonishing results:

*Sixty-three-year-old British artist Jacquie Lawson taught herself to use a computer only a few years ago. Last year, her business achieved sales in excess of R32m. What does she sell? Online cards. Lawson occupies a coveted niche in the electronic world: a profitable, subscription based website (*[*www.jacquielawson.com*](http://www.jacquielawson.com)*) where she sells her highly stylised e-cards without a bit of advertising.*

*While the giant, Hallmark, offer hundreds of e-cards for every occasion, Lawson only offers about 50 in total, the majority of which she intricately designed herself. Revenue comes solely from members, 81% from people in the United States who pay R32 per tear. Last year, membership climbed from 300 000 to 500 000 and the membership renewal rate is about 70%. Last December, Lawson’s website attracted 22.7 million visitors; more than double that of her closest competitor, Hallmark.*

*Lawson’s success with a business model that has stumped many media giants speaks to both the internets’ egalitarian nature and her own stubborn belief that doing it her way is the right way.*

Concentrated marketing can be highly profitable. At the same time, it involves higher than normal risks. Companies that rely on one or a few segments for all their business will suffer greatly if the segment turns sour. Or larger companies may decide to enter the same segment with greater resources. For these reasons, many companies prefer to diversify in several market segments.

### Micromarketing

Differentiated and concentrated marketers tailor their offers and marketing programs to meet the needs of various market segments and niches. At the same time, however, they do not customise their offers to reach individual customers.

Micromarketing is the practise of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Rather than seeing a customer in every individual, micro-marketers see the individual in every customer. Micromarketing includes local marketing and individual marketing.

Local marketing has some drawbacks. It can drive up manufacturing and marketing costs by reducing economies of scale. It can also create logistics problems as companies try to meet the varied requirements of different regional and local markets. Further, a brand’s overall image might be diluted if the product and message vary too much in different localities.

Still, as companies face increasingly fragmented markets, and as new supporting technologies develop, the advantages of local marketing often outweigh the drawbacks. Local marketing helps a company to market more effectively in the face of pronounced regional and local differences in demographics and lifestyles.

It also meets the needs of the company’s first-line customers, retailers, who prefer finer tuned product assortments for their neighbourhoods.

In the extreme, micro-marketing becomes individual marketing, tailoring products and marketing programs to meet the needs and preferences of individual customers.

Individual marketing has also been labelled one-to-one marketing, mass customisation and markets of-one-marketing.

The widespread use of mass marketing has obscured the fact that for centuries consumers were served as individuals.

The tailor custom-made the suit, the cobbler designed shoes for the individual, the cabinet maker made furniture to order and specifications.

Today, however, new technologies are permitting many companies to return to customised marketing. More powerful computers, detailed databases, robotic production and flexible manufacturing and interactive communication media such as e-mail and the internet, all have combined to foster “mass customisation”.

Mass customisation is the process through which firms interact one-to-one with masses of customers to design products and services tailor-made to individual needs.

Dell creates custom-configured computers. Hockey stick makers Gray’s lets the customers choose from more than two dozen options, stick length, blade patterns and curves and then turns out a customised stick in only five days.

Companies selling all kinds of products, from computers, sweets, clothing and golf clubs to fire trucks are customising their offerings to the needs of individual buyers. Look at the following example:

The LEGO company recently launched LEGO Factory, a web site where LEGO fans can “design their own ultimate LEGO model, show it off and bring it to life”. Using free, downloadable Digital Designer software, customers can create any structure they can imagine.

Then, if they decide to actually build their creation, the software, which keeps track of which pieces are required, sends an order to the LEGO warehouse. There, employees put all the pieces into a box, along with instructions and ship it off.

Customers can even design their own boxes. The software also lets proud users share their creations with others in the LEGO community, one of the traditional building blocks of the company’s customer loyalty. The LEGO factory gallery features winning designs and lets users browse and order the inspired designs of others.

Consumer goods marketers aren’t the only ones going one-to-one. Business-to-business marketers are also finding new ways to customise their offerings. For example: John Deere manufactures seeding equipment that can be configured in more than two million versions to individual customer specifications. The seeders are produced one at a time, in any sequence, on a simple production line. Mass customisation provides a way to stand out against competition.

## Choosing a Strategy

Companies need to consider many factors when choosing the marketing strategy.

Which strategy is best depends on the company resources. When the firm’s resources are limited, concentrated marketing makes the most sense. The best strategy also depends on the degree of product variability.

Undifferentiated marketing is more suited for uniform products such as grapefruit or steel.

Products that can vary in design, such as cameras and cars, are more suited to differentiation or concentration.

The product’s life-cycle stage also must be considered. When a firm introduces a new product, it may be practical to launch only one version and undifferentiated marketing or concentrated marketing may make the most sense.

In the mature stages of the product life cycle, however, differentiated marketing begins to make more sense.

Another factor is market variability. If most buyers have the same tastes, buy the same amounts and react the same way to marketing efforts, undifferentiated marketing is appropriate.

Finally, competitors marketing strategies are important. When competitors use differentiated or concentrated marketing, undifferentiated marketing can be suicidal.

Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing.

Smart targeting helps companies be more efficient and effective by focussing the segments that they can satisfy best and most profitably.

Targeting also benefits consumers, companies reach specific groups of consumers with offers carefully tailored to satisfy their needs.

However target marketing sometimes generates controversy and concern. The biggest issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potential harmful products.

For example; over the years, the cereal industry has been heavily criticised for its marketing efforts directed towards children. Children make up almost half of the R15m cereal market.

Critics worry that premium offers and high-powered advertising appeals presented through the mouths of lovable animated characters will overwhelm children’s defences.

The marketers of toys and other children’s’ products have been similarly battered, often with good justification.

# MARKETING SEGMENTATION IN RELATION TO MARKETING MIX

**Specific Outcome 3**

Explain market segmentation in relation to the marketing mix.

**Assessment Criteria**

* Changes to marketing mix variables and their positioning are identified and explained for different market segments.
* Changes to marketing mix variable and their positioning are identified and explained with regard to significant cultural influences.
* Monitoring mechanisms for tracking changes in buying behaviour of market segments are explained in accordance with established methods.

## Selecting an overall positioning strategy

The full positioning of a brand is called the brand’s value proposition; the full mix of benefits upon which the brand is differentiated and positioned. It is the answer to the customer’s question “Why should I buy your brand?”

Volvo’s value propositioning hinges on safety but also includes reliability, roominess and styling, all for the price that is higher than average, but seems fair for this mix of benefits.

The figure below shows possible value propositions upon which a company might position its products. In the figure, the five green cells represent winning value propositions, differentiation and positioning the gives the company a competitive advantage.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Price** | | | |
| **Benefits** |  | **More** | **The same** | **Less** |
| **More** | **More for more** | **More for the same** | **More for less** |
| **The same** |  |  | **The same for less** |
| **Less** |  |  | **Less for much more** |

The red cells, however, represent loosing value propositions. The centre yellow cell represents at best a marginal proposition.

More-for-more positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs.

Ritz-Carlton hotels, Mont Blanc pens and Mercedes-Benz each claims superior quality, craftsmanship, durability, performance or style and charges a price to match.

Not only is the market offering high in quality, it also gives prestige to the buyer. It symbolises status and a loftier lifestyle. Often, the price difference exceeds the actual increment in quality.

Sellers offering only the best can be found in every product and service category, from hotels, restaurants, food and fashion, to cars and household appliances.

Consumers are sometimes surprised, even delighted, when a new competitor enters a category with an unusually high-priced brand.

In general, companies should be on the lookout for opportunities to introduce a “more-for-more” brand in any underdeveloped product or service category.

Yet “more-for-more” brands can be vulnerable. They often invite imitators who claim the same quality but at a lower price.

Luxury goods that sell well during good times may be at risk during downturns when buyers become more conscious in their spending.

Companies can attack a competitor’s more-for-more positioning by introducing a brand offering comparable quality but at a lower price.

For example: Toyota introduced its’ Lexus line with a “more-for-the-same” value proposition versus Mercedes-Benz and BMW.

Its first add headline read “Perhaps the first time in history that trading a R500 000 car for a R250 000 car could be considered trading up.”

It communicated the high quality of its new Lexus through rave reviews in Car magazine and through a widely distributed videotape showing side-by-side comparisons of Lexus and Mercedes-Benz vehicles.

It published surveys showing that Lexus dealers were providing customers with better sales and service experiences than the Mercedes-Benz dealerships.

Many Mercedes-Benz owners switched to Lexus, and the Lexus repurchase rate has been 60%, twice the industry average.

Offering the same for less can be a very powerful value proposition, everyone likes a good deal. For example; Dell offers equivalent quality computers at a lower price for performance.

Similar with cheaper stores selling branded clothing at ridiculous prices. They don’t offer different or better products.

Instead they offer many of the same brands as department stores and speciality stores but at deep discounts based on superior purchasing power and lower cost operations.

Other companies develop imitative but lower priced brands in an effort to lure customers away from the market leader.

For example; AMD makes less expensive versions of Intel’s market-leading microprocessor chips.

“Less-for-much-less” positioning involves meeting consumers’ lower performance or quality requirements at a much lower price.

From the start, referring back to Southwest Airlines mentioned earlier in this unit, has positioned itself firmly as the no-frills, low-price airline.

Very much the same as our own Kulula and 1Time airlines in South Africa. Southwest’s passengers have learned to fly without amenities.

For example the airline provides no meals, just peanuts. It offers no first class section, only three-across seating in all of its planes.

Why, then, do so many passengers love Southwest? Perhaps most importantly, Southwest excels at the basics of getting passengers where they want to go on time, and with their luggage.

Beyond the basics however, Southwest offers shockingly low prices. In fact prices so low that when Southwest enters a market, it actually increases air traffic by attracting customers who might otherwise travel by car, train or bus.

Although there are no frills and they may have very low prices it doesn’t mean drudgery. Southwest’s cheerful employees go out of their way to amuse, surprise or somehow entertain passengers.

For example: veteran Southwest fliers know to listen up to announcements over the intercom. On one recent flight, a flight attendant offered the following safety advice

*“In the unlikely event of a sudden loss of cabin pressure, oxygen masks will descend from the ceiling. Stop screaming, grab the mask and pull it over your face.*

*If you have small children travelling with you, secure your mask before assisting with theirs. If you are travelling with two small children, decide right now which one you love more”*

One analyst sums up Southwest’s less-for-much-less positioning this way: It’s not luxurious, but it’s cheap and it’s fun”

### MARKET SEGMENTATION

The study of Consumer Behaviour focuses on how individuals decide to buy and use goods and services. Organisations can rarely afford to develop strategies based on the behaviour of any single individual. Instead, they must base their strategies on the behaviour of many individuals, who behave in similar ways.

Many tasks need the attention by consumer analysts, regardless of whether the consumer influence, post-modern, or inter-cultural perspectives are adopted. They are :

* One such task is to understand how groups of consumers (segments of the total) vary from one another, and how these behavioural differences affect segmented marketing programmes of profit and non-profit organisations.
* Another task is to understand how changes in behaviour of specific segments lead to shifts in the behaviour of the total market.

A market is rarely homogeneous as it consists of various groups of diversified nature or aggregate of consumers of a given product. The old and starting concept of “Mass Marketing” where the seller engages in mass production, mass distribution and mass promotion of one product or identical products or services for all buyers and assumes that all customers are alike and have the same/similar types of needs. But later on this has given way to the concept of offering different products to different groups / classes of consumers known as segments.

In developing economies, the mass marketing or identical product strategy is often used effectively. But as the economies grow, it becomes less effective, where most consumers already own the functional or core benefits. Market segmentation offers variation in functional benefits and more attention to hedonic (activities for pleasure, entertainment and leisure) needs.

The need for segmentation arises because people vary so much from one another. On one extreme, we have the mass marketing, where it is presumed that all humans are identical in their preferences and behaviour, so that there would be no need for market segmentation. Every product would be identical.

Because people differ so much in their needs, motivation, perception, decision making process and buying behaviour, that ideally, products would be custom made for each user to give them maximum satisfaction. Thus here exists the other extreme, where some individually developed products or services, such as custom-tailored clothing, beauty care, landscaping services, architectural plan for custom-designs for homes, but they are so heavily priced, that they can’t compete with more standardised products.

Effective marketing programmes usually require a mid-way or balanced approach between the two extremes :

* Ultimate segmentation of custom-designed products that match each individual’s behaviour, and
* Mass marketing of standardised products that appeal none.

The analytical goal for the marketers is to study the buying and consuming behaviour of customers and place each of them in an appropriate group or segment in such a way that it will :

* minimise the variance in behaviour between the members within a segment, and
* maximise the variance between the segments.

DEFINITIONS

Market Segmentation is the process of designing or featuring a product or service, so that it will make a particularly strong appeal to some identifiable subset of the total market. The opposite is called “Market Aggregation” or “Mass Marketing” as explained above.

Or, in other words, this is defined as the process of dividing a market into distinct sub-sets of consumers distinguished from one another, with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix.

In simple words, Market Segmentation is the division of a market into groups of similar consumers and selecting the most appropriate group(s) for the firm to serve them profitably.

MARKETING MIX

While the marketing mix is a very important chapter or topic by itself in the study of marketing management, the following describes in brief to give the readers a general understanding about it. The process or the tools of creating, communicating and delivering value to the customers is thru “Marketing Mix”, a concept devised by McCarthy. This concept is popularly known as “The 4Ps of Marketing”. They are :

* Products – These refer to the physical products and their attributes, like Design, Features, Brand Name, Models, Style, Appearance, Quality, Warranty, Utility value, Resale value, Package (design, type, material, size, appearance and labelling), Service (pre-sale, after sale, service standards, service charges).
* Place – This refer to the market place, or the location where exactly the products are available. These include Channels of Distribution (channel design, types of intermediaries, location of outlets, channel remuneration, dealer-principle relation, etc.), Physical Distribution (transportation, warehousing, inventory levels, order processing, etc.)
* Price – This simply is the price one has to pay or the cost one has to incur to own the product or services. This includes Price, Pricing Policies, Margins, Discounts, Rebates, Terms of Delivery, Payment Terms, Credit Terms, Instalment Purchase Facility, Resale Price Maintenance.
* Promotion – This refers to all kinds of activities which will assist, facilitate, influence or enhance the purchase of a product or service. This includes Personal Selling, Selling Expertise, Size of Sales Force, Quality of Sales Force, Advertising (media-mix, vehicles, programmes, sales promotions, publicity, and public relations).
* These are the basic elements of the marketing plan or programme. The marketer has to decide on how much (quantity) of and what variety and type (quality) of these elements will go into the designing of a particular marketing programme.

BENEFITS OF MARKET SEGMENTATION

Segmentation is an important tool for increasing profitability, and this can happen only when the economic value to consumers exceeds the cost of creating that value. Slowly, the marketers are acquiring the ability to measure and identify groups within the broader market that are sufficiently homogeneous to warrant separate products or marketing programmes. And this increases the profitability and effectiveness of the organisation to the extent that the economic benefits provided to the consumers far exceed the costs of segmentation process. The following gives a list of more specific benefits of market segmentation :

* Facilitates proper choice of target market,
* Helps distinguish one customer group from another within a given market,
* Facilitates effective tapping of the market, adapting the offer to the target,
* The “Divide and Rule” concept as a strategy of “dividing the markets for conquering them”,
* Helps crystallise the needs of the target buyers and elicit (bring out) more predictable responses from them, helps develop marketing programmes on a more predictable base, helps develop marketing offers that are most suited to each group,
* Helps specialisation required in products, distribution, promotion and pricing (marketing mix) for matching the customer group and developing marketing offers and appeals that match the needs of such a group,
* Makes marketing effort more efficient and economic – helps identify less satisfied segments and concentrate on them to improve the level of satisfaction,
* Helps concentrate efforts on the most productive and profitable segments instead of frittering them away over irrelevant, or unproductive, or unprofitable segments,
* Brings benefits to the customer as well,
* When segmentation attains high sophistication, customers and companies can choose each other and stay together.

LEVELS OF MARKET SEGMENTATION

Segmentation generally takes place in four levels as following, this is known as Micromarketing:

* Market Segmentation – Flexible market offering Naked Solutions and Discretionary Options. One way to segment consumers on the basis of their preferences :
  1. Homogeneous preference – Same or similar throughout a segment
  2. Diffused preference – Show random preference and vary drastically as represented by a scattered graph or diagram
  3. Clustered preference – Several sub segments showing similar preference within the sub group which is the most natural situation
* Niche Marketing : A niche is a more narrowly defined group (usually arrived at by dividing a segment into sub segments) seeking a distinctive mix of benefits, and are willing to pay a premium in return for the satisfaction of their needs. The niche market has enough size, profit, growth potential for its marketer, but not enough of them to attract competitors and generally has one or two only.
* Local Marketing : This tends to customise the global products to the needs and wants of the local customer groups (trading areas, neighbourhoods, individual stores). Ex. – McDonald’s Mc-Tikki and Pizza Hut’s Tandoori Range in India.
* Individual Marketing : This tends to be highly specialised and tailor-made for an Individual who has become highly particular and demanding. Ex. – designer cars by Dilip Chabria in India, Merc’s highly customised models etc

BASES FOR SEGMENTATION

In a market segmentation process, it’s the “consumers” or “customers” who are classified and not the “products” or the price, as generally understood. So product segmentation or price segmentation are sometimes mistaken for market segmentation. After the market is segmented, the customers classified and the target is decided on, then the relevant product / price programmes can be developed. The following are the broad bases for segmentation :

1.    Geographic Segmentation –

* Region – Far East, south-east Asia, Middle-east, European, Atlantic, Pacific, North/South America, Polar, Siberian, desert etc. In India North, South, West, East and North-east
* City or metro size – say below 100K, 100K-1M, 1M-10M, >10M etc. (K=Thousand, M=Million)
* Density – Urban, Sub-urban, Rural
* Climate – Hot, Warm, Cold, Humid, Tropical, Rainy, Deserts

2.    Demographic Segmentation –

* Age – Infants, Childhood, Adolescence, Young, Middle age, Old
* Sex – Male, Female, Others
* Marital Status – Single, Married, Divorced, Widowed
* Family Size – 2, 4, 6 or more
* Family Life Cycle - Young Single, Young Married (no children), Young Married (small children), Middle aged with or without children, Old with or without children, Single survivor
* Income - <5K, 5-10K, 10-25K, 25-50K, 50K-100K, >100K pm. (in respective countries in their currencies)
* Purchasing Capacity – with or without disposable surplus, low or high
* Price Preference – General, or Premium; min / avg / high
* Education – Secondary, Senior secondary, Graduation, Post Graduate, Technical / Higher Specialised Qualification
* Occupation – Un-employed, Students, Farmers, Workers, Govt. Employees, Self-employed, Professionals, Technical, Business Owners, Retired Persons, Housewives, Craftsmen, etc.

3.    Psychological / Behavioural Segmentation based on personal attributes – (This will be dealt in details in “Understanding Customer Behaviour with psychological influence”)

* Need Motivation – Food, Shelter, Clothes, Safety, Security, Self-confidence, Love
* Personality – Optimistic, Pessimistic
* Perception – Risk, Quality, Health, Safety,
* Learning Involvement – Low / High Involvement
* Attitude – Positive, Negative, Neutral
* Loyalty Status - None, Some, Total

4.    Psychographic Segmentation – (Based on AIO – Activities, Interests and Opinion) -

* Lifestyle – Culture Oriented, Sports Oriented, Outdoor Oriented, Urban Mobile, Couch Potato, Traditionalist, Sophisticate, Swinger
* Personality – Ambitious, Compulsive (with Obsession), Gregarious (liking of association or companionship), Authoritarian, Aggressive, Introvert, Extrovert, Compliant, Detached

5.    Socio-Cultural Segmentation –

* Culture – Indians, Asians, Europeans, Americans, Chinese, Japanese, Africans
* Sub-Culture – South Indians, Kashmiris, Gujaratis, Marathis, Bengalis, Oriyas, people of N-E states and BIMARU states, in India
* Religion – Hindus, Muslims, Christians (Catholic, Protestants), Buddhists, Jews,
* Language – English, Chinese, Japanese, European Languages, Arabic, Hindi and other Indian Languages
* Social Class – Lower Class (lower and upper), Working Class, Middle Class (lower and upper), Upper Class (lower and upper)
* Family Life Cycle

6.    Use related Segmentation –

* Usage Rate – Heavy users, Medium users, Light users, Active users, Rare users, Non-users
* User Status – Non-user, Ex-user, Potential User, First-time user, Regular User
* Awareness Status – Unaware, Aware, Interested, Enthusiastic,
* Attitude towards Product - Negative, Positive, Indifferent, Hostile
* Brand Loyalty – High, Moderate, Low, Non-Loyal

7.    Use Situation Segmentation –

* Time – Leisure, Work, Rush, Morning, Night
* Objective – Personal, Fun, Gift, Time-pass, Achievement
* Location – Home, Office, Road, Restaurants, In-store
* Person – Self, Family members, Boss, Friends, Peers

8.    Benefit Segmentation – Economic, Durable, Value for money, Convenient  
9.   Hybrid Segmentation –

* Demographic / Psychographic – Young Urban Mobile
* Geo-demographics – Working Women in India
* SRI Consulting Business Intelligence’s VALS (Value and Life-style System) –
* Actualisers - Successful, sophisticated, active “take-charge” people. Purchases often reflect cultivated tastes for relatively upscale, niche-oriented products.
* Achievers - Successful, career- and work-oriented. Favour established prestige products that demonstrate success to their peers.
* Believers - Conservative, conventional and traditional. Favour familiar products and established brands.
* Fulfilled - Mature, satisfied, comfortable, and reflective. Favour durability, functionality, and value in products.
* Experiencers – Young, vital, enthusiastic, impulsive and rebellious. Spend a comparatively high proportion of income on clothing, fast food, music, movies & video.
* Makers - Practical, self-sufficient, traditional, family-oriented. Favour only products with a practical functional purpose such as tools, utility vehicles, fishing equipment.
* Strivers - Uncertain, insecure, approval-seeking, resource constrained. Favour stylish products that emulate the purchases of those with greater material wealth.
* Struggler - Elderly, resigned, passive, concerned, resource constrained. Cautious consumers who are loyal to favourite brands.

BASES FOR SEGMENTING BUSINESS MARKETING

Business markets can be segmented with some of the same variables used in consumer market segmentation, but they also use certain other variables as follows. The marketers need to answer these questions to get the appropriate input for segmentation :

1.    Demographic

* Industry – Which industry should we serve?
* Company size – What size companies should we serve?
* Location – What geographical areas should we serve?

2.    Operating Variables

* Technology – What customer technologies should we focus on?
* User or Non-user status – Should we serve heavy users, medium users, light users or nonusers?
* Customer Capabilities – Should we serve customers needing many or few services?

3.    Purchasing approaches

* Purchasing-function organisation - Should we serve organisations with highly centralised or decentralised purchasing organisations?
* Power structure - Should we serve companies that engineering dominated, financially dominated or so on?
* Nature of existing relationships - Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
* General purchase policies - Should we serve companies that prefer leasing? Service contracts? System purchases? Sealed bidding?
* Purchasing criteria - Should we serve companies that are seeking quality? Service? Price?

4.    Situational factors

* Urgency - Should we serve companies that need quick and sudden delivery or service?
* Specific applications – Should we focus on certain application of our product rather than all applications?
* Size of order - Should we focus on large or small orders?

5.    Personal Characteristics

* Buyers-seller similarity - Should we serve companies whose people and values are similar to ours?
* Attitude towards risk - Should we serve risk taking or risk avoiding companies?
* Loyalty - Should we serve companies that show high loyalty to their suppliers?

STEPS IN SEGMENTATION PROCESS

Effective segmentation has following steps :

* Needs-Based Segmentation – Group the customers into segments based on similar needs and benefits sought by customer in solving a particular consumption problem.
* Segment Identification – For each needs-based segment determine which demographics, lifestyles and uses behaviour, make the segment distinct and identifiable (actionable).
* Segment Attractiveness – Using pre-determined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.
* Segment Profitability – Determine profitability of the segment.
* Segment Positioning – For each segment create a value proposition and product price positioning strategy based on that segment’s unique customer needs characteristics.
* Segment Acid Test – Create “segment storyboards” to test the attractiveness of each segment’s positioning strategy.
* Marketing Mix Strategy – Expand segment positioning strategy to include all aspects of the marketing mix products, price, place and promotion.

MARKET TARGETING

Evaluating, choosing, selecting and finally adopting the market segment(s) to develop appropriate marketing programmes with relevant marketing mix is known as market targeting. The following are the broad steps that must be followed to achieve a successful and effective market targeting :

Effective Segmentation Criteria :

To be useful, market segment must have following attributes :

* Measurable or Measurability – These refer to the information obtainable about the size, purchasing power and characteristics of the market segments. Unless these attributes can be measured the formulation and implementation of a marketing programme and marketing mix becomes very difficult.
* Substantial or Substantiality or Meaningful – These refer to the size of segments, whether they are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing programme. But also sometimes smaller companies prefer smaller segments, where the competition with large companies are less likely.
* Accessible or Accessibility or Marketable – These refer to the extent by which the segments can be effectively reached and served for the convenience of both the marketer and the customer.
* Differentiable or Differentiability – These refer to the degree that the segments are conceptually distinguishable and respond differently to different marketing mix elements and programmes.
* Actionable or Actionability – These refer to the extent that effective programmes can be formulated for attracting and serving the segments.
* Congruity - This refers to how well the members of a market segment fit together. Congruity is also a measure of appropriateness of the classification in explaining the behaviour of the group. This is helpful in predicting the nature of response to marketing programmes by segments. The marketers’ goal is to find groups of customers with intra-segment congruity which are also congruous with the firm’s ability to market the products.

Evaluating and Selecting Market Criteria :

Once the firm has identified its market segment opportunity it has to decide how many and which ones to target. The firm must look at two factors :

* The segments’ overall attractiveness and profitability, which can be determined by the check-list mentioned above,
* The company’s overall objectives and resources must match with the marketing objectives, and both of them together must be in conformity of the selection of the segments.

Marketing Strategy decisions :

Having evaluated different segments the company can consider the following patterns of target market selection :

* Single Segment Concentration (Concentration Strategy) – In this type of marketing, the company focuses on a single segment with a limited variation but usually high quality in the products or services. It’s also the basis of niche marketing, and the goal is to dominate a particular segment. Jerry Garcia of the Grateful Dead had said it well : “You don’t merely want to be considered just the best of the best. You want to be considered the only ones who do what you do”.
* Differentiated Marketing (Multi-Segment Marketing Strategy) - An alternative approach is to concentrate on two or more segments offering a differentiated marketing mix for each. This is based on the principle of diversity and has a distinct trend towards multiple product offerings targeted at different segments. This strategy is key to growth for many companies because it offers the potential benefit of enhanced market position and access to more of the market. But the disadvantages are the loss of core markets, unless precautions are taken. No products can be all things to all people. This approach can be of broadly three types as :
* Selective Specialisation (Selective Segmentation Strategy) – In this approach the marketers choose the segment and a matching market offering from the available ones. It means if the company has several products to offer to several selected segments, it can offer a particular product to a particular segment, and so on.
* Product Specialisation Strategy – In this strategy, one particular product is usually offered to two or more segments.
* Market Specialisation Strategy – Similarly, in this strategy one particular segment is usually offered with two or more products.
* Undifferentiated Marketing (Full Market Coverage) – Some marketers are of the opinion that the best approach is to market products and services without creating a separate marketing strategy for specific market targets. This means offering the whole range of products to the entire market. This strategy may have worked well with some companies to make them successful. But over a period of time these gave rise to a situation which calls for a differentiated approach. The problem with the undifferentiated marketing is that it often becomes difficult to maintain market position, if the needs of buyers are varied and they change because of variation in certain other factors, like buying capacity, more concerned about style, fashion and status, more disposable surplus, etc.
* Counter Segmentation – As happens with all things, the market and its segmentation don’t remain static. Times change, people change, companies change, products change, and so on. A new segment may arise, which needs to be considered independently. And similarly, the difference between two or more segments may get more insignificant over time and the segments no longer remain viable for individual consideration. This is a result of several influential factors changing independently or dependently. In such a situation, the company may decide the clubbing of two or more segments and to have a common strategy of marketing mix. This is called counter segmentation.

USES OF SEGMENTATION IN MARKETING STRATEGY

The following are the major uses of segmentation :

* Product Positioning : This refers to the ways in which consumers think of a particular product or personally identify a product with a perceived set of attributes. This is usually done in relation to the competing products in the minds of consumers.
* Promotional Strategy : This refers to the designing of the basic appeal to show how the company offering delivers perceived benefits and in selecting the specific media most useful in reaching the targeted market segments.
* Distribution Strategy : This refers to the physical delivery of goods and services at a place most convenient and preferable to the target segments. Today, lifestyle affects where consumers prefer to buy, whether at home, or nearby shop or in a mall or in a big store.
* Price Policy : This refers to the customers’ ability to pay. This is affected by income, lifestyle, social class, disposable surplus, family size, and above all a buyers’ willingness to pay. Whether a consumer wants to pay for the value, or usefulness, or status, or just plain low-priced articles is very important to the marketer to decide for market segmentation.

PRODUCT POSITIONING

This is the most important use of the marketing segmentation. The key objective of the positioning strategy is to form a particular brand image in consumers’ mind with respect to others. This is accomplished by developing a coherent strategy that may involve all the marketing mix elements. The different types of approaches are given below:

* Positioning by Attribute: Probably the most frequently used positioning strategy is positioning by attribute - that is, associating a product with an attribute, a product feature, or a customer benefit. A new product can also be positioned with respect to an attribute tat competitors have ignored till now. Sometimes a product can be positioned in terms of two or more attributes simultaneously. The price/quality attribute dimension is commonly used for positioning product as well as stores. In many product categories, some brands offer more in terms of service, feature, or performance, and a higher price associated with it. More often than not, the higher price is a signal of higher quality to the customers.
* Positioning by Use or Application: Another strategy is positioning by use or application or utility, like instant food or ready to eat food. Products can of course have multiple positioning strategies, although increasing the number involves difficulties and risks. Often a positioning-by-use strategy represents a second or third position designed to expand the market.
* Positioning by Product User: Another approach is positioning by product user or a class of users. For example, Johnson & Johnson’s baby shampoo was positioned for adults who need a mild natured shampoo, with success.
* Positioning by Product Class: Some critical positioning decisions involve positioning by product class. The soap Caress made by Lever Brothers was positioned as a bath-oil product rather than a soap.
* Positioning by Competitors: In most explicit or implicit frame of reference is given to the competition. This is known as the positioning by competitors. Often, the major purpose of this type of positioning is to convince the customers that a brand is better than the market leader (or another well accepted brand) on important attributes. Positioning with respect to the competitor is commonly done in advertisements in which a competitor is named and compared. The classic example of this type of positioning is the Avis: “We are number two, so we try harder to be the number one”.

CONCLUSION

Effective marketing strategy requires that each element of marketing mix fits together to deliver a co-ordinated and integrated appeal to the appropriate group of customers. This is the cardinal principle of market segmentation. There are innumerable players in the market, which makes the competition in the market place very tough today, and to expect anything less is not a successful proposition. Efficiency in segmentation strategy depends on the determination of ways of classifying customers with respect to behavioural congruity rather than descriptive, static, characteristics. The complexity of consumer behaviour makes this a very difficult task and the one that is continuously changing.

### Let’s recap what we have learned:

#### 1 - Define the major steps in designing a customer driven marketing strategy; market segmentation, targeting, differentiation and positioning.

Customer driven marketing strategy begins with selecting which customers to serve and deciding on a value proposition that best serves the target customers. Market segmentation is the act of dividing a market into distinct groups of buyers with different needs, characteristics, or behaviours who might require separate products or marketing mixes.

Once the groups have been identified, market targeting evaluates each market segments’ attractiveness and selects one or more segments to serve. Market targeting consists of designing strategies to build the right relationships with the right customers.

Differentiation involves actually differentiating the market offering to create superior customer value. Positioning consists of positioning the market offering in the minds of target customers.

#### 2 – List and discuss the major bases for segmenting consumer and business markets.

There is no single way to segment a market. Therefore, the marketer tries different variables to see which gives the best segmentation opportunities.

For consumer marketing, the major segmentation variables are demographic, geographic, psychographic and behavioural. In geographic segmentation the market is divided into different geographical units such as nations, regions, provinces, cities and neighbourhoods.

In demographic segmentation, the market is divided into groups based on demographic variables including age, gender, family size, family life cycle, income, occupation, education, religion, race, generation and nationality.

In psychographic segmentation, the market is divided into different groups based on social class, lifestyle or personality characteristics. In behavioural segmentation, the market is divided into groups based on consumers’ knowledge, attitudes, uses, or responses to a product.

Business marketers may use many of the same variables to segment their markets. But business markets also cab ne segmented by business consumer demographics (industry, company size), operating characteristics, purchasing approaches, situational factors and personal characteristics.

The effectiveness of segmentation analysis depends on finding segments that are measurable, accessible, substantial, differentiable and actionable.

#### 3 – Explain how companies identify attractive market segments and choose a market targeting strategy.

To target the best market segments, the company first evaluates each segment’s size and growth characteristics, structural attractiveness and compatibility with company objectives and resources.

It then chooses one of four market targeting strategies, ranging from very broad to very narrow targeting. The seller can ignore segment differences and target broadly using undifferentiated (or mass) marketing.

This involves mass producing, mass distributing and mass promoting about the same product in about the same way to all consumers. Or the seller can adopt differentiated marketing, developing different market offers for several segments.

Concentrated marketing (or niche marketing) involves focussing on only one or a few market segments. Finally, micromarketing is the practise of tailoring products and marketing programs to suit the tastes of specific individuals and locations.

Micromarketing includes local- and individual marketing. Which targeting strategy is best depends on company resources, product availability, product life-cycle stage, market variability and competitive marketing strategies.

#### 4 – Discuss how companies differentiate and position their products for maximum competitive advantage in the marketplace.

Once a company has decided which segments to enter, it must decide on its differentiation and positioning strategy. The differentiation and positioning task consists of four steps:

1. Identifying a set of possible differentiations that create competitive advantage
2. Choosing advantages upon which to build a position
3. Choosing the right competitive advantages
4. Selecting an overall positioning strategy

The brand’s full positioning is calls its value proposition, the full mix of benefits upon which the brand is positioned.

In general, companies can choose from one of five winning value propositions upon which to position their products: more for more, more for the same, the same for less, less for much less, or more for less.

Company and brand positioning are summarised in positioning statements that state the target segment and need, positioning concepts and specific points of difference.

The company must then effectively communicate and deliver the chosen position to the market.