Marketing

Second SA edition
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Chapter 6:
Segmenting and
Targeting Markets

6-1

Introduction

- **What is a market?**
  - people or organisations
  - with needs and wants
  - the ability to buy
  - the willingness to buy
- **Generic vs Product-Market**
- **Mass marketing *vs* market segmentation**
  - lower costs vs better need satisfaction?
- **Segmentation is the acknowledgement that not all consumers are the same**

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Market Segmentation

Criteria for Successful Segmentation

- Substantiality
- Identifiability and Measurability
- Accessibility
- Responsiveness

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Two Other Criteria

- **Homogeneous within**
- **Heterogeneous between**

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Segmenting Consumer Markets

Bases for Segmenting Consumer Markets

- **Behavioural**
  usage rate, occasions, brand familiarity
- **Geographic**
- **Demographic**
  age, gender, family life cycle
- **Psychographic**
  personality, motives, lifestyles, geodemographics
- **Benefits**

Single vs Multiple Bases

- **Single basis**
  - simple but inaccurate
- **Multiple bases**
  - more complex and difficult to use but more accurate

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Behavioural Segmentation

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- **Segments that behave differently in terms of:**
  - usage rate (see British Airways ad)
    » high users *vs* medium vs low users
    » 80/20 principle
  - occasions
    » certain products associated with certain occasions
    » opportunities for new uses, other occasions and re-positioning
  - brand familiarity
    » loyal customers are marketed to differently than potential new market segments

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Geographic Segmentation

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- **Reasons for a regional approach**
  - new approach often required in stagnant markets
  - technology provides accurate information about sales in different areas
  - products appealing to local preferences are more likely to be successful
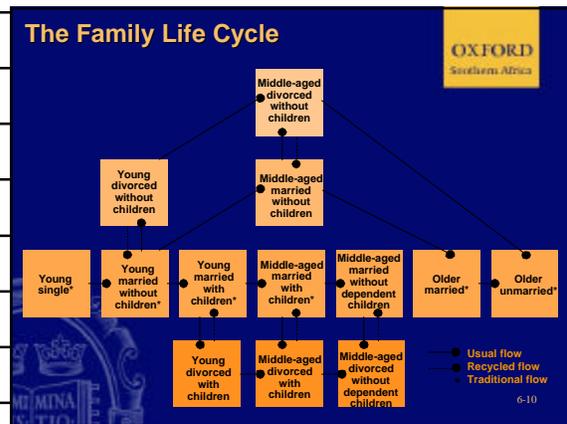 - its easier to react quickly to market changes at regional rather than national level

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Demographic Segmentation

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- **Very popular because of ease of use**
- **Its true value sometimes questioned**
- **Examples are age, gender, income ethnicity, family life cycle**

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The Family Life Cycle

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Middle-aged divorced without children

Young divorced without children

Middle-aged married without children

Young single*

Young married without children*

Young married with children*

Middle-aged married with children*

Middle-aged married without dependent children

Older married*

Older unmarried*

Young divorced with children

Middle-aged divorced with children

Middle-aged divorced without dependent children

●— Usual flow
●— Recycled flow
●— Traditional flow

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Psychographic Segmentation

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- **Gained popularity due to criticism of demographics**
- **Provides information on**
  - personality, motives, lifestyles, geodemographics
- **Groups consumers based on**
  - activities: work, hobbies, entertainment, shopping
  - interests: family, home, community, fashion, media
  - opinions: themselves, politics, economics, culture
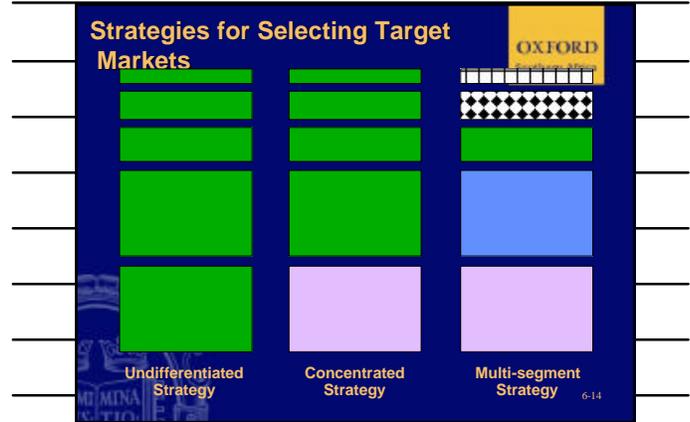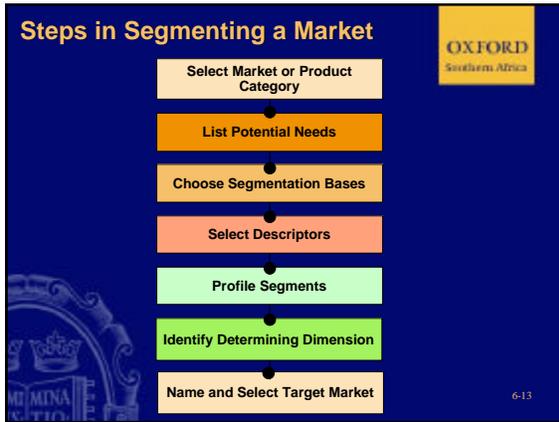- **See SAB example on p. 173**
- **VALS**

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Benefit Segmentation

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- **Based on the belief that different market segments seek different benefits when purchasing a product**
- **Segments thus identified in terms of needs**
- **Example: see "benefits sought" row in Table 6.2**

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Steps in Segmenting a Market

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- Select Market or Product Category
- List Potential Needs
- Choose Segmentation Bases
- Select Descriptors
- Profile Segments
- Identify Determining Dimension
- Name and Select Target Market

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Strategies for Selecting Target Markets

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Undifferentiated Strategy	Concentrated Strategy	Multi-segment Strategy

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Selecting a Segmentation Strategy

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- Selection depends on:
  - resources
  - competition
  - homogeneity/competitive advantage
- **Profitability of the segment is the key**

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Undifferentiated Targeting

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Advantages
- Mass marketing ensures lower costs due to economies of scale

Disadvantages
- Susceptible to competition eg IBM
- Less than optimal need satisfaction
- Slow adaptation

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Concentrated (niche) Targeting

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Advantages
- Specialisation, better service to customers, need satisfaction
- Do not compete on price
- Lower total cost
- Higher profit per unit
- Quick adaptation
- Better positioning

Disadvantages
- All eggs in the same basket
  - Exposed to environmental changes
  - Exposed to changes in demand
- Vulnerable to competitive attack

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Multi-segment Targeting

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Advantages
- Potentially greater sales volume
- Higher profits
- Larger market share
- Economies of scale in:
  - manufacturing
  - marketing

Disadvantages: Higher costs
- Production design costs
- Production costs
- Promotion costs
- Inventory costs
- Market research costs
- Management costs
- Cannibalisation

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Positioning

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- Positioning follows market segmentation and targeting
- Position is the place the product or brand occupies in the consumer's mind
- A positioning strategy must be formulated for each product in each target market
- Positioning discussed in detail in next chapter

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In Summary: The Advantages of Segmentation

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- Accurate assessment and satisfaction of consumer needs
- Better utilisation of scarce resources
- More opportunities for building long term relationships
- More accurate and detailed goals and objectives
- Enhanced performance assessment

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