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MARKET SEGMENTATION

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Purpose

The main purpose of this presentation is to review and synthesize important literature pertaining to the concept of marketing strategy.

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Introduction

Marketing strategy is a plan which determines the firm’s marketing goals; marketing strategy explains how the goals will be achieved within a stated framework. It also determines the choice of target market segment, positioning, marketing mix and allocation of resources. A clear understanding of marketing management philosophies of choice, the marketing environment, Consumer behavior and extent of the use of the marketing information systems affects the nature and quality of marketing strategy.

Marketing strategy can be undifferentiated marketing strategy, or a differentiated marketing strategy.

Undifferentiated marketing strategy refers to the process of not dividing the market of consumers into groups based on one or more shared internal or external characteristics. An undifferentiated targeting strategy is used when a firm decides to communicate the benefits of its product by sending the same promotional message to everyone. For an undifferentiated strategy to be successful, the product must be readily available and affordable and must provide the same benefits to all consumers. The differentiated marketing strategy refers to the process of dividing the market of consumers into groups based on one or more shared internal or external characteristics. The differentiated marketing is a market segmentation strategy.

Marketing Segmentation

Introduction: Consumers behave in a group. Each such group has its own model of behavior. Identifying such groups of consumers is known as marketing segmentation. It is marketing strategy to produce & market products that suits the need of a particular group of consumer.

Definition: It is defined as “The strategy of dividing the market in order to consumer them”. According to Philip Kotler, “It is the subdividing of market into homogenous subsets of consumers where any subset may be selected as a market target to be reached with distinct Marketing Mix”.

Segmentation is essential as the customers have diverse needs and behaviour related to market stimuli. It also helps the firms as follows:

Measures of a good market segment

- a) The segment should be of adequate size. There should be manageable number of segments.
- b) The segments should be concrete with justified measurable base for each segment.

Process of market Segmentation

- i. Identify the current and potential wants that exist in the market.
- ii. Identify the characteristic that distinguish among the segments
- iii. Determine who has each want. Final step is to estimate how much demand and potential sales each segment represents.

Basis of Segmentation

The following factors are considered before dividing the market:

1. **Geographical Factors:** On the basis of geographical factors, market may be classified based on,
 - a) Regions (by country, nation, state, neighborhood)
 - b) Population density (urban, suburban, rural)
 - c) City size (size of area, population size and growth rate)
 - d) Climate (regions having similar climate pattern)

Many companies operate only in a particular area because people behave differently in different areas due to various reasons such as climate, culture, etc.

A firm, either serving a few or all geographic segments, needs to put attention on variability of geographic needs and wants. After segmenting consumer market on geographic bases, companies localize their marketing efforts (product, advertising, promotion and sales efforts).

2. **Demographic Factors:** This is the most widely used basis for market segmentation. Market is classified on the basis of population, using ages, income, sex, etc as indicators.

- a. **Age:** It is known fact that people of different ages like different products, need different things, & behave differently. Almost all companies use this factor to reach the target market. On the basis of age, market in our country is divided into children's market, teenager's market, adult's market, & the market for old people. Companies use the census data to prepare marketing strategies on the basis of age.
- b. **Sex:** There is a variation of consumption behavior between males & females. This factor is used as a basis for segmentation for products like watches, clothes, cosmetics, leather goods, magazines, motor vehicle, etc.
- c. **Family Life Cycle:** This is another important factor, which influences the consumer's behavior. Eg: Before making purchases, a bachelor may consult his friends, a boy may ask his parents & a married man asks his wife. The study of family life cycle helps a company to prepare an effective promotional strategy.

Others include Gender, Income, Occupation ,Education ,Social class ,Generation ,Family size ,Home ownership, Religion, Ethnic group/race and Nationality.

Demographic factors are most important factors for segmenting the customers groups. Consumer needs, wants, usage rate these all depend upon demographic variables. So, considering demographic factors, while defining marketing strategy, is crucial.

3. **Psychological factors:**

- a. **Personality:** Most consumers are influenced by personality traits. This is particularly true in the case of urban consumers. On the basis of personality, consumers may be divided in to introverts (reserve people), talkative, status, conscious, suspicious & so on.

Others include; Interests , Opinions, Self Image , Activities, Values and Attitudes.

4. **Economic Factors:** On the basis of economic factors, markets have been classified in the westerns countries as follows:

- | | | |
|-----------------|-----------------------|-----------------------|
| a. Upper Class | b. Upper-upper class | c. Lower-upper class |
| d. Middle class | e. Upper-middle class | f. Lower-middle class |
| g. Lower class | h. Upper-lower class | i. Lower-lower class |

In our country, it is classified as upper class (rich), middle class, & the lower class. Another classification based on income in our country is as follows:

- | | | |
|--------------------|-------------------|---------------------------|
| a. Very Rich | b. The Rich class | c. The Aspiration Class & |
| d. The Destitutes. | | |

5. **Behavior Factors:**

- a. **Occasions** (like holidays): Sellers can easily find out certain occasions when people buy a particular product. Eg: Demand for clothes, greeting cards, etc increases during the festival season. Demand for transportation, hotels etc increases during the holiday seasons.
- b. **Product Benefits:** Each consumers expects to fulfill certain desire or to derive some benefits from the product he purchases. Eg: A person may purchase clothes to save money & another to impress others. Based upon this, markets may be classified as markets for cheap price products & market for quality products etc.
- c. **Attitude:** On the basis of attitude of consumers, markets may be classified as enthusiastic market, indifferent market, positive market, & negative market.

Other Behavioral variables include: Usage rate , Brand loyalty , Price consciousness and User Status (first time, regular or irregular)

6. **Business-to-Business or Industrial Segmentation**

Industries buy raw materials and components from suppliers. The suppliers segment their customers as follows:

- a) **Company size**—the larger the company the more product it is likely to buy, be better paymaster (as it has to keep its name as a good company). Sometimes medium size

companies prove to be good as they are trying to grow and their reputation is vital for them.

- b) **Innovative companies**—they have the lead user concept, want to be the first users of the product. Small companies have the advantage of being flexible in their production and other plans

Benefits of Market Segmentation

The purpose of segmentation is to determine the differences among the purchases which may affect the choice of the market area & marketing strategies. Following are some of the benefits of marketing segmentation.

i. Market segmentation is customer-oriented.

Marketer will identify the customer need and want then only decide if it is practical to develop marketing mix to satisfy those wants.

ii. Planning focused marketing programs.

It tries to satisfy those needs by having common marketing program, without such segmentation, market program becomes haphazard & they lead the company nowhere. A small company with limited resources can select a particular group of consumers & market its products efficiently by selecting the marketing mix suitable to that group.

iii. Creating competitive advantage.

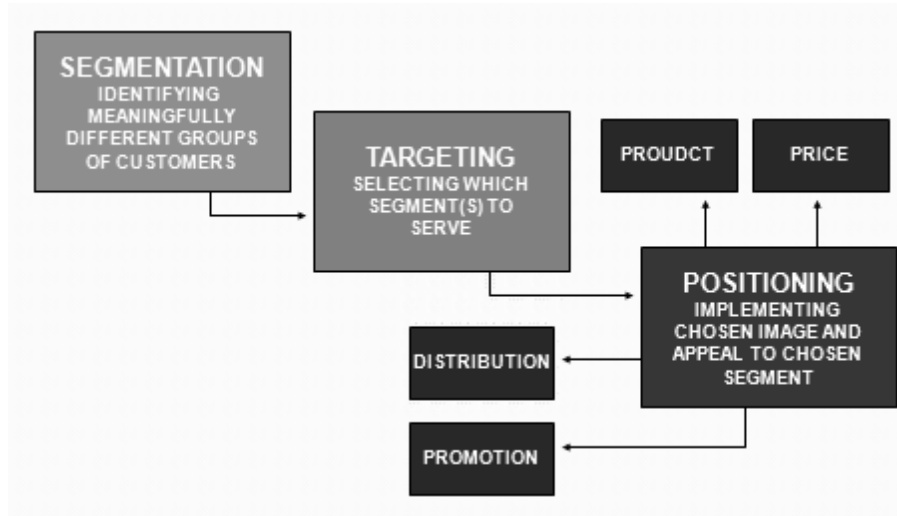
Markets are segmented to satisfy different customer needs to leverage as firm's advantage in size, location to serve identifiable groups of customers, profitably. From segmentation, the firm can target the segment or segments by steering its marketing efforts towards them.

- iv. The management can respond to meet changing market demand.
- v. Management can do a better marketing job.
- vi. Develop strong positions in specialized market segment.
- vii. It helps to understand the complex behavior of consumers
- viii. Tastes & Preferences of consumers may be easily determined.
- ix. It helps in locating the new markets

- x. It helps marketing programs beneficial to consumers as products are produced & sold according to their needs.

Target marketing and positioning strategy

As part of adaptive strategy, after segmentation, what can follow is target marketing and positioning as shown below



Relationship of segmentation, targeting and positioning strategies

Segmentation, targeting and positioning strategies are differentiated strategy.

Target marketing

Target marketing is defined as the identification of the market segments that are identified as being the most likely buyers of a firm's product.

The advantages of target marketing include:

Marketing opportunities and unfilled 'gaps' in a market may be more accurately appraised and identified. Such gaps can be real or they can be illusionary in terms of the way people want to view the product

Market and product appeals through manipulation of the marketing mix can be more delicately tuned to the needs of the potential customer

Marketing effort can be concentrated on the market segment which offer the greatest potential for the company to achieve its goals

Positioning strategy

Positioning refers to how the firm wants its consumers to see its product. And a positioning strategy results in the image the firm wants to draw in the mind of its customers, the picture it wants the customers to visualize of the firm's offer, in relation to the market situation, and any competition that the firm may have.

There are different positioning themes:

Attribute positioning: The message highlights one or two of the attributes of the product

Benefit positioning: The message highlights one or two of the benefits to the customer

Use/application positioning: Claim the product as best for some application

User positioning: Claim the product as best for a group of users

Competitor positioning: Claim that the product is better than a competitor

Product category positioning: Claim as the best in a product category

Quality/Price positioning: Claim best value for price

Niche Market Strategy and Generic Marketing Strategy

a) Niche market strategy

A niche market strategy is a strategy that focuses on addressing a need for a product that is not being addressed by mainstream providers. It is a strategy that targets a small but profitable portion of a market. The strategy targets buyers who are interested in the type of product being offered. A niche product, by its mere nature, might be not the one that has a broad-based appeal. With this in mind, a marketing niche strategy needs to seek out interested parties where they might be.

b) Generic marketing strategy

Within the context of market segmentation, there is another marketing strategy called Generic marketing strategy. The Generic marketing strategy aims at giving competitive advantages to the firms. The most common generic marketing strategy is the one based on the model developed by Porter. According to this model, there is segmentation strategy, differentiation strategy and cost leadership strategy that gives firms competitive advantages.

Narrow market scope	Segmentation strategy	
	Differentiation Strategy	Cost Strategy
Broad market scope		

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