UNIT 6 MARKET SEGMENTATION

6.1 INTRODUCTION

Market segmentation is the process of dividing a larger market into smaller groups of consumers who share similar needs and characteristics. The purpose of market segmentation is to allow businesses to develop targeted marketing strategies and products that resonate with specific groups of customers. By understanding the unique needs and preferences of different segments of the market, businesses can tailor their marketing messages and product offerings to maximize effectiveness and profitability.

Market segmentation can be based on a variety of factors, including demographics (such as age, gender, income, and education level), geographic location (such as region, city, or climate), psychographics (such as values, interests, and lifestyles), and behavior (such as buying habits, brand loyalty, and purchase frequency).

The benefits of market segmentation include increased customer satisfaction, improved marketing effectiveness, and higher profitability. By focusing on specific segments of the market, businesses can differentiate themselves from competitors and provide value to customers by meeting their unique needs and preferences.

However, market segmentation also poses challenges for businesses, such as the cost and complexity of conducting market research and the potential for market overlap. To conduct

effective market segmentation, businesses must invest in research and analysis to understand customer needs and preferences, and develop tailored marketing strategies and products that meet those needs.

6.2   OBJECTIVES

After reading this unit you will be able to understand:

- ➢ Market Segmentation and Segmentation variables.

- ➢ Advantages and challenges of market segmentation.

- ➢ Process of market segmentation.

- ➢ Target market and selection of target market.

6.3   DEFINING MARKET SEGMENTATION

Market segmentation is the process of dividing a market into smaller groups of consumers with similar needs, interests, and characteristics. The purpose of market segmentation is to enable businesses to tailor their marketing efforts and offerings to specific segments of the market, rather than trying to appeal to the entire market as a whole. This can result in more effective marketing campaigns, better customer engagement, and increased sales and profitability. There are a variety of ways to segment a market, including demographic, geographic, psychographic, and behavioral segmentation.

Market segmentation is a crucial aspect of marketing strategy as it helps businesses to identify and target specific groups of consumers that are more likely to be interested in their products or services. By dividing the market into smaller segments based on shared characteristics, businesses can create targeted marketing campaigns that are more likely to resonate with those consumers.

There are several ways to segment a market:

- **Demographic segmentation**: This involves dividing the market based on demographic factors such as age, gender, income, education, and occupation.

- **Geographic segmentation**: This involves dividing the market based on geographic factors such as location, climate, population density, and cultural differences.

- **Psychographic segmentation**: This involves dividing the market based on psychological factors such as lifestyle, personality, values, and attitudes.

- **Behavioral segmentation**: This involves dividing the market based on consumer behavior such as usage rate, loyalty, buying habits, and response to marketing messages.

Once a market has been segmented, businesses can then develop tailored marketing strategies and offerings for each segment. This can include customized products or services, targeted advertising, personalized messaging, and specialized pricing and promotions.

Overall, market segmentation allows businesses to better understand and engage with their target customers, leading to increased customer satisfaction, loyalty, and profitability.

6.4   DEFINING SEGMENTATION VARIABLES

Demographic Segmentation

Demographic segmentation is a type of market segmentation that divides the market based on demographic factors such as age, gender, income, education, and occupation. This type of segmentation is based on the idea that consumers in different demographic groups have different needs, preferences, and behaviors, and therefore require different marketing strategies and offerings. Basis of demographic segmentation are as follows:

- **Age**: Age is one of the most commonly used demographic segmentation criteria. It can be used to divide the market into different age groups, such as children, teenagers, young adults, middle-aged adults, and seniors. Each age group may have different needs, preferences, and behaviors, and therefore require different marketing strategies and offerings. For example, children may be more attracted to colorful packaging and fun characters, while seniors may be more interested in products that promote health and wellness.

- **Gender**: Gender is another commonly used demographic segmentation criteria, particularly in industries such as clothing, personal care, and beauty. Men and women may have different needs, preferences, and behaviors, which can be reflected in marketing strategies and product offerings. For example, a cosmetics company may develop different product lines for men and women, or a clothing company may use different marketing messages and imagery to appeal to each gender.

- **Income**: Income is another important demographic segmentation criteria, particularly for businesses that sell luxury or premium products, or offer discounts or promotions to lower-income consumers. Dividing the market into different income brackets, such as low-income, middle-income, and high-income consumers, can help businesses tailor their marketing strategies and pricing to the specific needs and budgets of each group.

- **Education**: Education is another useful demographic segmentation criteria, particularly for businesses that offer products or services that are tailored to a particular level of education, such as educational software or professional services.

Dividing the market based on educational level, such as high school graduates, college graduates, and post-graduate degree holders, can help businesses target their marketing messages and offerings to consumers with different levels of knowledge and expertise.

Geographic segmentation

Geographic segmentation is a type of market segmentation that divides the market based on geographic factors such as location, climate, region, and population density. This type of segmentation is based on the idea that consumers in different geographic areas may have different needs, preferences, and behaviors, and therefore require different marketing strategies and offerings. Basis of geographic segmentation are as follows:

- **Region**: Dividing the market into different geographic regions can help businesses identify regional differences in consumer behavior and preferences. For example, a clothing company may find that consumers in the Northeast prefer heavier fabrics and darker colors than consumers in the South, who may prefer lighter fabrics and brighter colors.

- **Climate**: Dividing the market based on climatic factors can help businesses develop products and services that are tailored to different weather conditions. For example, a home heating and cooling company may offer different products and services in regions with extreme temperatures or high humidity levels.

- **Population density**: Dividing the market based on population density can help businesses understand the needs and preferences of consumers in different areas. For example, a retailer may offer more delivery options in urban areas where transportation and parking may be difficult.

- **Urban vs. rural**: Dividing the market based on whether consumers live in urban or rural areas can help businesses identify lifestyle and preference differences. For example, a grocery store may offer more organic and natural products in urban areas where there is a higher demand for these products.

  Geographic segmentation can be particularly useful for businesses that operate in multiple regions or countries, as it allows them to tailor their marketing strategies and offerings to the specific needs and preferences of each geographic area. This can help businesses increase their market share, improve customer satisfaction, and drive sales and profitability. However, businesses must also be careful not to over-generalize or stereotype consumers based on their geographic location, as individual preferences and behaviors can vary widely even within the same region.

Psychographic segmentation

Psychographic segmentation is a type of market segmentation that divides the market based on consumers' lifestyle, personality traits, values, interests, and attitudes. This type of

segmentation is based on the idea that consumers with similar psychographic profiles may have similar needs, preferences, and behaviors, and therefore require different marketing strategies and offerings. Basis of Psychographic segmentation are as follows:

- **Personality traits**: Dividing the market based on personality traits such as extroversion, openness, and conscientiousness. This can be useful for businesses that offer products or services that are tailored to specific personality types, such as travel and adventure companies that target thrill-seekers.

- **Lifestyle**: Dividing the market based on consumers' lifestyle factors such as hobbies, interests, and social activities. This can be useful for businesses that offer products or services that are aligned with certain lifestyles, such as fitness and wellness brands that target health-conscious consumers.

- **Values**: Dividing the market based on consumers' values and beliefs, such as environmentalism, social justice, and spirituality. This can be useful for businesses that offer products or services that are aligned with certain values, such as sustainable fashion brands that target eco-conscious consumers.

- **Attitudes**: Dividing the market based on consumers' attitudes toward specific products or services, such as their perception of quality, price, or convenience. This can be useful for businesses that want to understand consumers' perceptions and preferences in order to improve their offerings.

  By using psychographic segmentation, businesses can tailor their marketing strategies and offerings to the specific needs and preferences of different consumer groups, leading to more effective marketing campaigns and increased sales and profitability. However, psychographic segmentation can be more difficult to implement than other types of segmentation, as it requires businesses to understand consumers' inner motivations and desires, which can be more subjective and difficult to measure than demographic or geographic factors.

Behavioral segmentation

Behavioral segmentation is a type of market segmentation that divides consumers based on their behavior towards a product or service, such as their purchasing habits, usage patterns, or loyalty. This type of segmentation is based on the idea that consumers with similar behaviors may have similar needs and preferences, and therefore require different marketing strategies and offerings. Basis of Behavioral segmentation are as follows:

- **Purchase behavior**: Dividing the market based on consumers' purchasing habits, such as frequency, amount spent, and product preferences. This can be useful for businesses that want to tailor their offerings and promotions to different customer groups based on their purchase behavior.

- **Usage behavior**: Dividing the market based on consumers' usage patterns of a product or service, such as frequency of use, purpose of use, and level of satisfaction. This can be useful for businesses that want to identify and target heavy users or develop new products or services based on specific usage needs.

- **Loyalty behavior**: Dividing the market based on consumers' loyalty to a product or service, such as repeat purchases, recommendations, and brand advocacy. This can be useful for businesses that want to retain loyal customers or develop customer loyalty programs to incentivize repeat purchases.

- **Occasion-based behavior**: Dividing the market based on consumers' behavior on certain occasions or events, such as holidays, birthdays, or special occasions. This can be useful for businesses that want to tailor their marketing campaigns and offerings to different occasions or develop seasonal promotions.

- **Benefits sought**: This type of behavioral segmentation focuses on the benefits that customers seek from a product or service, such as convenience, quality, or price. By understanding what benefits are important to different customer groups, businesses can develop targeted marketing messages and offerings that meet those specific needs.

Behavioral segmentation can help businesses to develop targeted marketing campaigns and offerings that meet the specific needs and preferences of different customer groups. This can lead to increased customer satisfaction and loyalty, as well as improved sales and profitability. However, businesses need to gather and analyze data on customer behavior to implement this type of segmentation effectively, which can be time-consuming and costly.

6.5 ADVANTAGES OF MARKET SEGMENTATION

Market segmentation offers several advantages to businesses, some of which are:

1. **Better understanding of customer needs**: By dividing the market into smaller segments, businesses can gain a better understanding of the specific needs and preferences of each customer group. This can help businesses to tailor their products, services, and marketing campaigns to meet those needs and preferences, leading to increased customer satisfaction and loyalty. For example, a business may segment the market based on age and develop products and marketing campaigns that appeal to each age group.

2. **More effective marketing campaigns**: Market segmentation allows businesses to develop targeted marketing campaigns that are more likely to reach the right customers with the right message at the right time. By understanding the specific characteristics of each customer group, businesses can develop marketing messages and promotions that are more relevant and appealing to those customers, leading to higher response rates and increased sales. For example, a business may segment the market based on income and develop marketing campaigns that offer different pricing and payment options for each income group.

3. **Improved profitability**: By focusing on specific customer groups and developing targeted offerings and marketing campaigns, businesses can improve their profitability. They can avoid wasting resources on customers who are not likely to purchase their products or services, and instead, focus their efforts on those customers who are more likely to make a purchase. This can lead to increased sales and higher profit margins. For example, a business may segment the market based on geographic location and develop pricing strategies that reflect the different cost structures in each region.

4. **Increased competitiveness**: Market segmentation can help businesses to differentiate themselves from their competitors by developing unique offerings and marketing campaigns that meet the specific needs and preferences of their target customers. This can help businesses to gain a competitive advantage and increase their market share. For example, a business may segment the market based on lifestyle and develop products and marketing campaigns that appeal to customers with different lifestyles.

5. **Better resource allocation**: Market segmentation helps businesses to allocate their resources more effectively by focusing on the most profitable customer segments. By understanding which customer groups are most valuable to their business, businesses can allocate their resources more efficiently and effectively, leading to improved profitability and growth. For example, a business may segment the market based on customer behavior and develop marketing campaigns that target customers who have a higher propensity to make repeat purchases.

Thus, market segmentation can help businesses to gain a better understanding of their customers, develop more effective marketing campaigns, improve profitability, increase competitiveness, and allocate their resources more effectively. By implementing market segmentation strategies, businesses can improve their overall performance and achieve their growth objectives.

6.6 CHALLENGES FOR MARKET SEGMENTATION

While market segmentation can offer numerous benefits, there are also some challenges that businesses may face when implementing this strategy. Here are some common challenges for market segmentation

1. **Data collection and analysis**: To effectively segment a market, businesses need to collect and analyze a significant amount of data on customer characteristics and behavior. This includes demographic, geographic, psychographic, and behavioral data. Collecting and analyzing such data can be challenging and time-consuming, especially for businesses with limited resources.

   Moreover, the data collected must be reliable and valid, and it should provide a comprehensive understanding of the target market. This requires expertise in data collection and analysis, which may not be available in-house.

2. **Over-segmentation**: Over-segmentation occurs when a business divides the market into too many small and unprofitable segments. This can lead to increased costs and complexity as each segment requires its own unique marketing strategy.

   Furthermore, small segments may not be worth targeting as they may not provide sufficient returns to justify the costs associated with developing and implementing targeted marketing strategies. Therefore, businesses need to strike a balance between segmentation and profitability.

3. **Lack of homogeneity within segments**: Even when businesses have successfully segmented the market, they may find that there is a lack of homogeneity within segments. This means that there may be significant differences in customer behavior and preferences within each segment, making it difficult to develop effective marketing strategies that appeal to all customers within the segment.

   To address this challenge, businesses may need to develop sub-segments or use additional variables to further segment the market. This may require additional resources and expertise in market research and segmentation.

4. **Competitors targeting the same segments**: When businesses segment the market, they may find that their competitors are also targeting the same customer segments. This can lead to increased competition and the need for businesses to develop unique marketing strategies and offerings to differentiate themselves.

   To stand out from competitors, businesses need to understand their customers' needs and preferences and develop marketing strategies that resonate with them. This may require a deep understanding of customer behavior, preferences, and expectations, as well as ongoing market research and analysis.

5. **Changes in customer behavior and preferences**: Customer behavior and preferences are constantly evolving, and businesses may find that the segments they have identified are no longer relevant or profitable. This can require businesses to re-segment the market and adapt their marketing strategies accordingly.

   To stay ahead of the competition, businesses need to be agile and adaptable, and they must keep track of changes in customer behavior and preferences. This requires ongoing market research and analysis to ensure that segmentation strategies are aligned with current market trends and customer needs.

Thus, market segmentation can offer many benefits, but it also presents some challenges that businesses need to overcome. These challenges include data collection and analysis, over-segmentation, lack of homogeneity within segments, competition, and changes in customer behavior and preferences. By addressing these challenges, businesses can successfully implement market segmentation strategies and achieve their growth objectives.

6.7 PROCESS OF MARKET SEGMENTATION

The process of conducting market segmentation involves several steps, including:

1. **Define the market**: To define the market, you need to have a clear understanding of who your potential customers are. This can involve identifying the geographic region where your products or services will be sold, as well as demographic, psychographic, and behavioral characteristics of your target customers.

2. **Conduct research**: To gather information about your target market, you can use a variety of market research methods, such as surveys, focus groups, and online analytics. This research can help you understand customer needs, preferences, and behavior.

3. **Identify segments**: After collecting data, the next step is to identify different segments within your target market. This can be done using clustering techniques, which group customers based on their similar characteristics. The goal is to create segments that are distinct, measurable, and actionable.

4. **Evaluate segments**: Once you have identified potential segments, you need to evaluate them based on factors such as size, profitability, and growth potential. This will help you determine which segments are most attractive and worth targeting.

5. **Select target segments**: Based on your evaluation, select the most attractive segments to target. This involves considering factors such as market size, growth potential, competition, and profitability.

6. **Develop marketing strategies**: Once you have selected your target segments, the next step is to develop marketing strategies tailored to each segment. This can involve developing unique messaging, product offerings, and promotions that resonate with each segment's needs and preferences.

7. **Implement and monitor**: The final step is to implement your marketing strategies and monitor their performance. This involves tracking customer behavior, evaluating the effectiveness of your strategies, and making adjustments as needed to ensure that you are meeting your business objectives.

The market segmentation process is an ongoing process, and businesses must continuously gather data and analyze customer behavior to refine their segmentation strategies. Effective market segmentation can help businesses improve customer engagement, increase customer loyalty, and drive growth.

Check Your Progress-A

Fill in the blanks.

1. ……………….. involves dividing the market based on demographic factors such as age, gender, income, education, and occupation

2. ………………. involves dividing the market based on consumer behavior such as usage rate, loyalty, buying habits, and response to marketing messages

6.8   TARGET MARKET

Target market refers to a specific group of consumers or businesses that a company aims to sell its products or services to. It's the audience that a business wants to reach with its marketing efforts and is made up of people or organizations that have similar characteristics, needs, and preferences.

Identifying a target market is important because it helps businesses focus their marketing efforts and resources on the customers who are most likely to purchase their products or services. By understanding their target market, businesses can develop tailored marketing strategies that speak to their customers' unique needs, preferences, and behavior.

To identify a target market, businesses need to consider factors such as demographics, psychographics, behavior, and geographic location. They can use market research techniques such as surveys, focus groups, and online analytics to gather data on their customers and use this information to develop customer personas that represent their ideal customer.

Once a target market has been identified, businesses can create marketing campaigns that are specifically tailored to that audience. By focusing their efforts on a specific group of customers, businesses can improve the effectiveness of their marketing campaigns and increase their chances of success.

6.9   SELECTION OF TARGET MARKET

Selecting a target market involves evaluating different segments of the market and determining which ones offer the greatest potential for sales and profitability. Here are some key steps to consider when selecting a target market:

1. **Identify potential customer segments**: This involves researching and analyzing different segments of the market to determine which ones offer the greatest potential for sales and profitability. Segments can be based on a variety of factors, including demographics (age, gender, income, education, etc.), psychographics (personality, lifestyle, values, etc.), behavior (buying habits, product usage, etc.), and geographic location (region, city, climate, etc.).

2. **Evaluate segment size and growth potential**: Once you have identified potential customer segments, you need to evaluate each segment's size and growth potential. Look for segments that are large enough to support your business goals and have the potential for growth. You can use market research tools such as surveys, focus groups, and online analytics to gather data on the size and growth potential of different segments.

3. **Analyze competition**: Evaluate the competition in each potential customer segment to determine how easy or difficult it would be to enter that market. Look for segments where

you can differentiate yourself from competitors and have a competitive advantage. This can involve researching competitors' marketing strategies, products, and customer feedback.

4. **Assess profitability**: Evaluate the profitability of each potential customer segment to determine whether it aligns with your business goals and objectives. Look for segments with high profit margins and low marketing costs. This can involve analyzing data such as revenue, cost of goods sold, and marketing expenses.

5. **Develop customer personas**: Once you have identified your target market, it's important to develop customer personas that represent your ideal customer. Customer personas are fictional characters that represent your target customers and help you understand their needs, preferences, and behavior. You can use data from your research to develop customer personas and tailor your marketing efforts to their specific needs.

6. **Refine and adjust**: As your business grows and evolves, your target market may change. It's important to continuously evaluate and refine your target market selection to ensure that you are meeting your business goals and objectives. This can involve analyzing data, testing new marketing strategies, and adjusting your customer personas.

Check Your Progress- B

Write True or False.

3. Target market refers to a specific group of consumers or businesses that a company aims to sell its products or services to.

4. Customer behavior and preferences are constantly evolving, and businesses may find that the segments they have identified are no longer relevant or profitable.

5. Psychological segmentation involves dividing the market based on geographic factors such as location, climate, population density, and cultural differences.

6.10 SUMMARY

Market segmentation is the process of dividing a larger market into smaller groups of consumers who share similar needs and characteristics. This allows businesses to develop targeted marketing strategies and products that resonate with specific groups of customers. There are several types of market segmentation, including demographic, geographic, psychographic, and behavioral segmentation. Each type of segmentation involves identifying different characteristics of consumers, such as age, gender, location, interests, and buying behavior. The benefits of market segmentation include increased customer satisfaction, improved marketing effectiveness, and higher profitability. However, there are also challenges associated with market segmentation, such as the cost and complexity of conducting market research and the potential for market overlap. To conduct effective market

segmentation, businesses must invest in research and analysis to understand customer needs and preferences, and develop tailored marketing strategies and products that meet those needs.

6.11 GLOSSARY

> *Market Segmentation:* Market segmentation is the process of dividing a larger market into smaller groups of consumers who have similar needs or characteristics, and who are likely to respond similarly to marketing strategies. The purpose of market segmentation is to enable companies to tailor their products, services, and marketing efforts to the specific needs and preferences of each segment, rather than attempting to appeal to the entire market as a whole. By understanding the unique characteristics of each segment, companies can develop more effective marketing messages, choose the best distribution channels, and optimize their pricing strategies to maximize profitability. Market segmentation can be based on a variety of factors, including demographic information, geographic location, psychographic characteristics, and behavior patterns.

> *Target Market:* The target market refers to a specific group of consumers or customers that a company aims to reach with its marketing efforts and products or services. This group of consumers is identified through market segmentation, as it represents the most viable and profitable segment(s) for the company to focus its resources on.

The target market is the intended audience for a company's marketing messages and promotions, and the products or services offered are tailored to meet their specific needs and preferences. By understanding the unique characteristics of the target market, companies can develop targeted marketing strategies, create products and services that meet the needs of the target market, and communicate effectively with potential customers. The target market can be defined based on a variety of factors, including demographics, psychographics, behavior patterns, and geographic location.

6.12 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress –A
1. Demographic Segmentation

2. Behavioural Segmentation

Check Your Progress –B
3. True.
4. True.
5. False.

6.13 REFERENCES

1. Mc Daniel, Lamb & Hair, Introduction to Marketing, Thomson/ South-Western
2. Stanton, Fundamentals of Marketing, Mc-Graw Hill
3. Subhash C Jain, Marketing: Planning & Strategy, Thomson/South-Western
4. Armstrong & Kotler, Marketing: An Introduction, Pearson Education.
5. Philip Kotler, Marketing Management: Analysis, Planning & Control, Prentice-Hall.

6.14 SUGGESTED READINGS

1. Mc Daniel, Lamb & Hair, Introduction to Marketing, Thomson/ South-Western
2. Stanton, Fundamentals of Marketing, Mc-Graw Hill
3. Subhash C Jain, Marketing: Planning & Strategy, Thomson/South-Western
4. Armstrong & Kotler, Marketing: An Introduction, Pearson Education.
5. Philip Kotler, Marketing Management: Analysis, Planning & Control, Prentice-Hall.

6.15 TERMINAL QUESTIONS

1. Define Market Segmentation?
2. Elaborate the process of market segmentation?
3. Explain selection of target market.