

## **CHAPTER 16**

### **MARKET SEGMENTATION**

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#### **CHAPTER OBJECTIVES**

1. To understand market segmentation and consider why it is used.
2. To examine how companies segment markets.
3. To explore different targeting strategies.
4. To learn about the role and process of positioning in segmentation strategies.
5. To consider how marketers can achieve the most from market segmentation.

#### **CHAPTER SUMMARY**

The chapter begins by identifying the underlying principle of market segmentation. It then looks at the segmentation process and the variables that can be used for grouping customers in consumer and business markets. Segmentation analysis, targeting, and positioning are then reviewed. Segmentation is discussed with a view to obtaining the most from it and the chapter concludes by looking at the role of segmentation in the future.

#### **ANNOTATED LECTURE OUTLINE**

Point 1 - Introduction.

Segmentation is the term given to the grouping of customers with similar needs by a number of different variables. Once this has been done, segments can be targeted by a number of targeting strategies. The stage that then follows is known as positioning which is the place that products or services occupy in the marketplace in relation to the competition, as perceived by the target market.

Point 2 - The market-segmentation concept.

The underlying principle of market segmentation is that individual customers have different product and service needs. Mass marketing, the marketing of a single product to everyone, is rarely a viable strategy, just as it is to customize products to an individual.

Point 3 - The market segmentation process.

The segmentation process is generally regarded as consisting of three stages; segmentation, targeting, and positioning.

Point 4 - Segmentation variables.

The first stage of the segmentation process involves the selection of suitable variables for grouping customers. These are also referred to as base variables or the segmentation basis. There is rarely one best way of segmenting a market and more than one variable can be used. There are a number of segmentation variables that can be used for consumer and business-to-business markets.

Point 5 - Segmentation analysis.

Research plays an important role in segmentation as segmentation analysis requires a range of data from a wide variety of sources on markets, customers' attitudes, motives and behaviour as well as competitor information.

Point 6 - Targeting.

Targeting is the next step in the sequential process and involves a business making choices about segment(s) on which resources are to be focused. There are three major targeting strategies: undifferentiated, concentrated, and differentiated. During this process the business must

balance its resources and capabilities against the attractiveness of different segments.

#### Point 7 - Positioning.

Positioning follows on logically from the segmentation and targeting stages. Customer perceptions are central to the product position especially in relation to the competition's offering. The product or service has to satisfy key customer requirements and this has to be clearly communicated to customers. A tool that helps marketers understand customer perceptions of their brand is perceptual mapping and a simple 7-step approach can be used to develop a clear positioning strategy. However, a number of positioning problems can arise.

#### Point 8 - Getting the most out of market segmentation.

Market segmentation, targeting and positioning are not always easy to apply and problems can arise for a number of reasons. There are a number of steps that can be taken to avoid these problems and, in addition, there are a set of segmentation criteria that can help.

#### Point 9 - Market segmentation: the future.

The two key factors that will affect segmentation in the future are competitive and technological forces. In addition, there is a rising trend towards one-to-one marketing.

#### Point 10 - Conclusion

The underlying principle of market segmentation is that the product and services needs of individual customers differ. Market segmentation involves the grouping of customers together with the aim of better satisfying their needs whilst maintaining economies of scale. It consists of three stages and if properly executed should deliver more satisfied customers, few direct confrontations with competitors, and better designed marketing programmes.

### **Answers to the discussion questions:-**

1. The answer here lies in an organization's ability to more closely match the product offering with what customers need and want. It should deliver better use of resources, economies of scale, avoidance of direct competition, etc.
2. Students should be encouraged to list the product offerings and identify the specific need each satisfies, e.g. low calorie, reduced sugar etc.
3. This requires the application of the three stages which are briefly outlined in Box 16.2 pp383. Students should be able to apply these principles to a product of their choice.
4. It can help to identify a unique positioning strategy on which the hotel can differentiate itself. Segmentation variables that might be appropriate are listed in Box 16.3 pp384.
5. It can help with identifying the key customer groups, highlight potential customers with similar characteristics, and with the implementation of the marketing mix variables.
6. These strategies for targeting are covered in Section 6.1 pp398.
7. The factors here are shown in Figure 16.2 pp401. These factors need applying to the shampoo manufacturer.
8. The steps in the positioning process are discussed in Section 7.2 pp402. Information will play a crucial role in the process and will help to determine consumer perceptions.
9. The main positioning problems are outlined in Section 7.4 pp405. There may be problems here with the brand image and consumers perception of the brand in relation to the competition, or there may be issues concerning elements of the marketing mix. Options for re-positioning are given in Box 16.9 pp404
10. Segmentation needs to be planned and before the project begins they must try to understand what factors contribute to a successful outcome. The segmentation criteria offered by Kotler can be a useful guide.
11. Ideally, segments should be measurable, substantial, accessible, actionable, and stable.
12. Some of the difficulties may include lack of data, inappropriate choice of base variables, poor analytical skills, etc.

## **MINI CASE**

### **THE ELECTRIC VEHICLE MARKET**

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1. A number of variables could be used in the new-car market, including a combination of demographic, socio-economic, geographic, personality and lifestyle, and behavioural characteristics.
2. Incorrect targeting could lead to the failure of the product. If they target too small a market they may not realise the full sales and profitability of the product, alternatively too large a segment may mean they do not have enough resources to serve it adequately.
3. Initially, this is likely to be the case as those with the strongest environmental concerns will be the most interested. As the availability of new fuel technologies increases so should the segments.

The positioning probably will be different to the petrol-powered Peugeot 106 as the place that the target market perceive the electric version occupying will be different. It will depend upon the customer needs and benefits that are being satisfied by the new-fuel version.