BUS 214: PRINCIPLES OF MARKETING II

Study Session 6

1. TOPIC: MARKET SEGMENTATION

2. Introduction

In this study session, you will learn that in a bid to increase sales and profitability, marketers tend to adopt various strategies. One of such strategies aimed at boosting sales of a product is market segmentation. Market consists of buyers, and buyers are likely to differ in one or more respect. They may differ in their desires, resources, geographical locations, buying attitudes, buying practices, and so on. It is for these reasons that a market need to be segmented.

3. Learning Outcomes for Study Session 4

After studying this session, you should be able to:

(a define market segmentation;
(b) state the criteria for segmentation; and
(c) identify the steps involved in segmentation.

4. What Is Market Segmentation?

In the Bamboo web Dictionary (www.Bambooweb.com) "Market segmentation is the process of grouping a market into smaller subgroups. Market Segmentation is a marketing strategy in which a large heterogeneous market is broken down into small, more homogenous segments and a separate marketing program is developed for each segment (Schewe 1942, P.213). Market segmentation is the act of dividing a market into distinct and meaningful groups of consumers who might merit separate products and or/ marketing mixes (Kotler, P.216).

Market segmentation is the process of identifying and evaluating various strata or layers of market (Carl 1979, P.40). Market segmentation is not something that is arbitrarily imposed on society. It is derived from the recognition that the total market is often made up of sub-markets called segments. These segments are homogenous within. Because of this intra-group similarity, they are likely to respond somewhat similarly to a given market strategy. That is, they are likely to have similar feelings about a marketing mix comprised of a given product, sold at a given price, distributed in a certain way, and promoted in a certain way.

5. Forms and Approaches to Segmentation

Carl (1979) identified five basic forms of segmentation:

1. Demographic: - by age, sex, income, life cycle
2. Geographic: - by region, urban or rural
3. Psychographic - by life style or personality
4. By Benefits- (e.g., tastes good, feels good)

5. By Volume - (e.g., heavy user, light user)

Segmentation is much more than simply "chopping up" a market into one or more of the five basic forms. It also requires identifying the level of demand associated with the various segments and designing a marketing mix to meet the unique needs and desires of a specific target segment. According to Wilson, Gilligan and Pearson (1992) for a market to justify attention, six conditions typically need to be satisfied. These conditions are the criteria for successful segmentation and they must be met for segmentation to be positively feasible: The market must be measurable, accessible, substantial, unique, appropriate, and stable. Schewe (1942) has identified the following steps in market segmentation processes:

1. Determine the market boundaries
2. Decide which segment variables to use
3. Collect and analyze segmentation data
4. Develop a profile of each segment
5. Target the segments to be served
6. Design a marketing plan

To Wilson, Gilligan and Pearson, the approach focuses on three areas:

1. Developing a spatial map of consumers' perception of brands within a given market sector.
2. Identifying consumers' ideal plants on this map so that demand for a particular product might then be estimated by examining its position in relation to the ideal.
3. Developing a model which will provide a basis for predicting consumer's responses to new and modified products.

6. Bases for Segmenting Consumer Market

Market segmentation involves the creative search for the most useful segmentation variables. The most market-oriented variables are customer's product requirements and customer's responses to marketing stimuli.

The major bases for segmenting consumers markets are:

1. Geographic segmentation
2. Demographic segmentation
3. Psychographic segmentation
4. Behavioral segmentation

1. Geographic Segmentation: Under these bases, the market is divided into different location; that is, countries, states, regions, local government areas, cities and villages. A particular geographic region may represent a potential successful market segment for an organization because few competitors are located in the region. The organization recognizes that market potentials and cost vary with market location. It determines those geographical markets that it can serve best.

2. **Demographic segmentation:** The Demographic information is the most widely used based to develop consumers segment. They include the age groups, occupation, sex and other sub-variables like, the family size, education, family life cycle or religion.

3. **Psychographic Segmentation:** In segmenting a market according to its psychographic, buyers are divided into different groups on the basis of their life style, perception or personality differences.

4. **Behavioral Segmentation:** Buyers in this case are divided into different groups on the basis of their knowledge, attitude, benefits sought, usage rate, and response to the actual product or its attributes. This base is believed by many marketing executives as the key starting point in identifying market segments.

7. Bases for Segmenting Industrial Market

The industrial goods market is made up of manufacturers, utilities, government agencies, contractors, mining firms, wholesalers, retailers, insurance and real estate firms and institutions that buy goods and services for use in producing other products for resale. This market has three distinctive characteristics:

a. Geographic Market Concentration
b. A Relative Small Number of Buyers
c. Systematic Buying Procedures

The Market for Industrial goods can be segmented on the following basis:

1. Customer order size
2. Industrial specification
3. Purchasing power
4. Location of the user

8. **Advantages and Disadvantages of Market Segmentation**

Advantages of Market Segmentation

1) It does not insist that consumers make compromises when they purchase the marketers product.

2) Promotional expenditure is allocated to the most profitable segments within the total market.

3) It results in a better match between what the marketer’s offers and what the market desires.

Disadvantages of Market Segmentation

A major drawback of the market segmentation process is the increase in researched expenditure as more and more market segments are investigated. Another drawback is the rise in production cost because production runs are shorter than efficiency of mass production is lost. Sales in one segment may also be sacrificed as another segment is served.

9. Summary of Study Session, 'Market Segmentation'

Now that you have completed this Study Session 6, you will now learn and appreciate how marketing begins to work. Having defined the purpose of segmentation, we have also looked at the obvious and the less obvious bases for segmentation in both consumer and Industrial markets. We have also ascertained that, if used well, the techniques and concepts described above can contribute significantly to overall company marketing success. Market segmentation targeting and positioning decisions are thus, more strategic than they are tactical. Segmentation Variable should be examined in detail, especially new segments. These should then be authenticated in terms of viability and potential profit.

10. Self-Assessment Questions (SAQs) for Study Session 6

Now that you have completed this study session, you can assess yourself with the following questions:

(a) Define market segmentation
(b) What are the bases for segmenting a consumer market?
(c) Discuss the advantages and disadvantages of market segmentation.
(d) You have been asked to explain the approaches to market segmentation. How do you respond to the question?

11. Notes on SAQs for Study Session 6

12. References

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