

5. Market Segmentation

Market segmentation is the identification of portions of the market that are different from one another. Segmentation allows the firm to better satisfy the needs of its potential customers.

The Need for Market Segmentation

The marketing concept calls for understanding customers and satisfying their needs better than the competition. But different customers have different needs, and it rarely is possible to satisfy all customers by treating them alike.

Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers. Mass marketing allows economies of scale to be realized through mass production, mass distribution, and mass communication. The drawback of mass marketing is that customer needs and preferences differ and the same offering is unlikely to be viewed as optimal by all customers. If firms ignored the differing customer needs, another firm likely would enter the market with a product that serves a specific group, and the incumbent firms would lose those customers.

Target marketing on the other hand recognizes the diversity of customers and does not try to please all of them with the same offering. The first step in target marketing is to identify different market segments and their needs.

Requirements of Market Segments

In addition to having different needs, for segments to be practical they should be evaluated against the following criteria:

- **Identifiable:** the differentiating attributes of the segments must be measurable so that they can be identified.
- **Accessible:** the segments must be reachable through communication and distribution channels.
- **Substantial:** the segments should be sufficiently large to justify the resources required to target them.
- **Unique needs:** to justify separate offerings, the segments must respond differently to the different marketing mixes.
- **Durable:** the segments should be relatively stable to minimize the cost of frequent changes.

A good market segmentation will result in segment members that are internally homogenous and externally heterogeneous; that is, as similar as possible within the segment, and as different as possible between segments.

Bases for Segmentation in Consumer Markets

Consumer markets can be segmented on the following customer characteristics.

- Geographic
- Demographic
- Psychographic
- Behavioralistic

Geographic Segmentation

The following are some examples of geographic variables often used in segmentation.

- Region: by continent, country, state, or even neighborhood
- Size of metropolitan area: segmented according to size of population
- Population density: often classified as urban, suburban, or rural
- Climate: according to weather patterns common to certain geographic regions

Demographic Segmentation

Some demographic segmentation variables include:

- Age
- Gender
- Family size
- Family lifecycle
- Generation: baby-boomers, Generation X, etc.
- Income
- Occupation
- Education
- Ethnicity
- Nationality
- Religion
- Social class

Many of these variables have standard categories for their values. For example, family lifecycle often is expressed as bachelor, married with no children (DINKS: Double Income, No Kids), full-nest, empty-nest, or solitary survivor. Some of these categories have several stages, for example, full-nest I, II, or III depending on the age of the children.

Psychographic Segmentation

Psychographic segmentation groups customers according to their lifestyle. Activities, interests, and opinions (AIO) surveys are one tool for measuring lifestyle. Some psychographic variables include:

- Activities
- Interests
- Opinions
- Attitudes
- Values

Behavioralistic Segmentation

Behavioral segmentation is based on actual customer behavior toward products. Some behavioralistic variables include:

- Benefits sought
- Usage rate
- Brand loyalty
- User status: potential, first-time, regular, etc.
- Readiness to buy
- Occasions: holidays and events that stimulate purchases

Behavioral segmentation has the advantage of using variables that are closely related to the product itself. It is a fairly direct starting point for market segmentation.

Bases for Segmentation in Industrial Markets

In contrast to consumers, industrial customers tend to be fewer in number and purchase larger quantities. They evaluate offerings in more detail, and the decision process usually involves more than one person. These characteristics apply to organizations such as manufacturers and service providers, as well as resellers, governments, and institutions.

Many of the consumer market segmentation variables can be applied to industrial markets. Industrial markets might be segmented on characteristics such as:

- Location
- Company type
- Behavioral characteristics

Location

In industrial markets, customer location may be important in some cases. Shipping costs may be a purchase factor for vendor selection for products having a high bulk to value ratio, so distance from the vendor may be critical. In some industries firms tend to cluster together geographically and therefore may have similar needs within a region.

Company Type

Business customers can be classified according to type as follows:

- Company size
- Industry
- Decision making unit
- Purchase Criteria

Behavioral Characteristics

In industrial markets, patterns of purchase behavior can be a basis for segmentation. Such behavioral characteristics may include:

- Usage rate
- Buying status: potential, first-time, regular, etc.
- Purchase procedure: sealed bids, negotiations, etc.