



MKC1200 – Principles of Marketing

Week 5

Segmentation, Targeting, and Positioning

Chapter 5 of the prescribed text



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Learning objectives:

- Understand what market segmentation is
- Discuss major segmentation variables
- Explain the process of selecting and evaluating target market
- Appreciate the concept of positioning

What is Market Segmentation?

➤ Market

- a group of people, who, as individuals or as organisations, have needs for products and have the ability, willingness, and authority to purchase them

➤ Market segment

- individuals, groups or organisations with one or more *similar characteristics* that cause them to have *similar product needs*

What is Market Segmentation? - continued

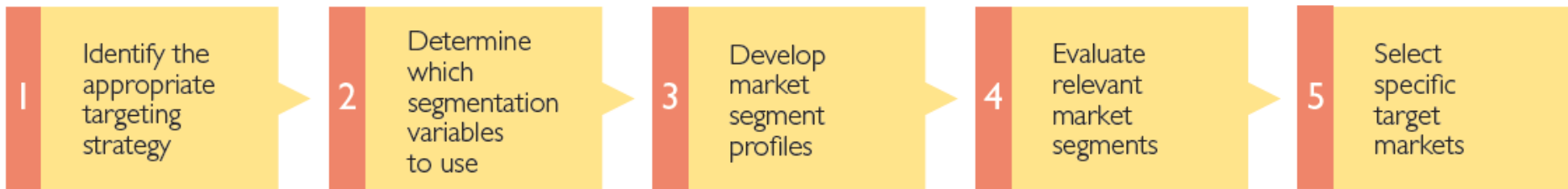
➤ **Market segmentation**

- the process of dividing a total market into groups with relatively similar product needs to design a marketing mix that matches those needs
- appropriate for heterogeneous markets where there are diverse needs and wants for products

➤ **Target market**

- the market in which the organisation decides to serve

Target-market selection process



(Figure 5.4., Pride 2e, p. 170)



Step 1: Identify the appropriate targeting strategy

- Marketers need to select the best targeting strategy
 - Undifferentiated strategy
 - Concentrated strategy
 - Differentiated strategy
- Their selection is based on the needs of their target market, characteristics of their target market, product attributes, and organizations' objectives and resources



Targeting strategies – undifferentiated strategy

- Organisation designs a single marketing mix and directs it at entire market for a particular product
- Appropriate for homogeneous market where a large proportion of customers have similar needs for a product

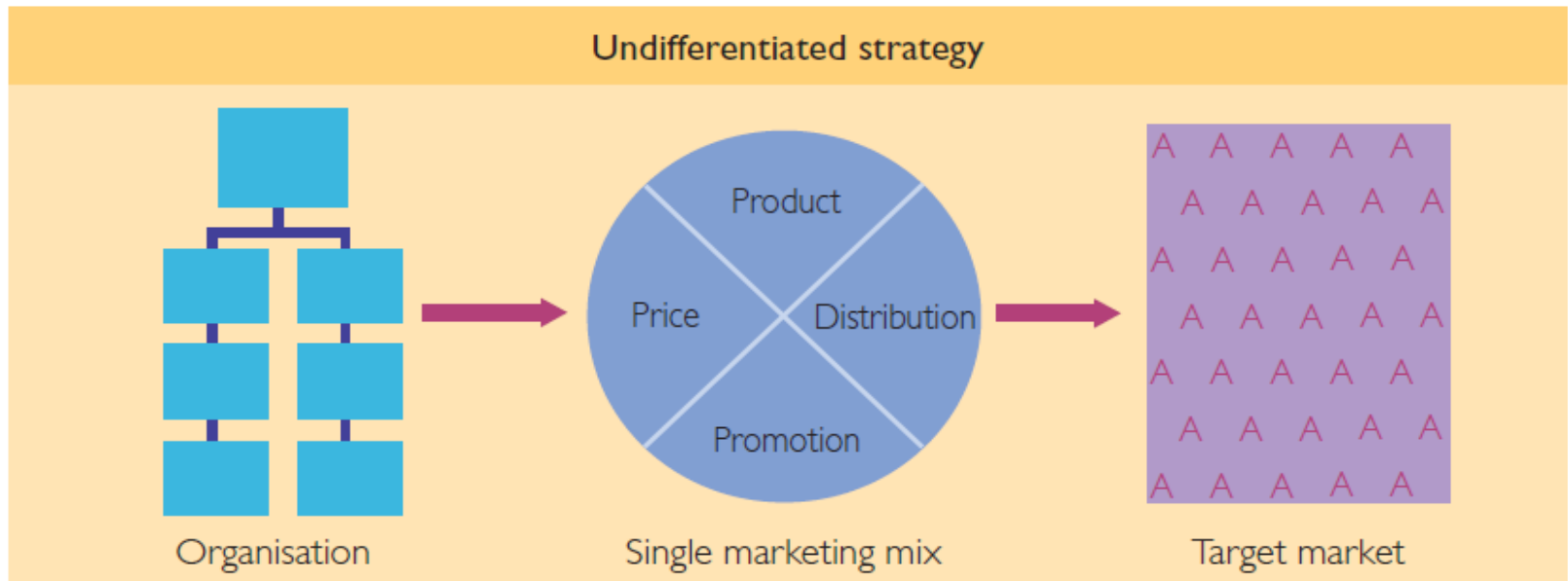


Figure 5.5, Pride 2e, p. 171



Targeting strategies – concentrated strategy

- Organisation targets a single market segment using one marketing mix
- Appropriate for heterogeneous market where markets made up of individuals or organisations with diverse needs for products

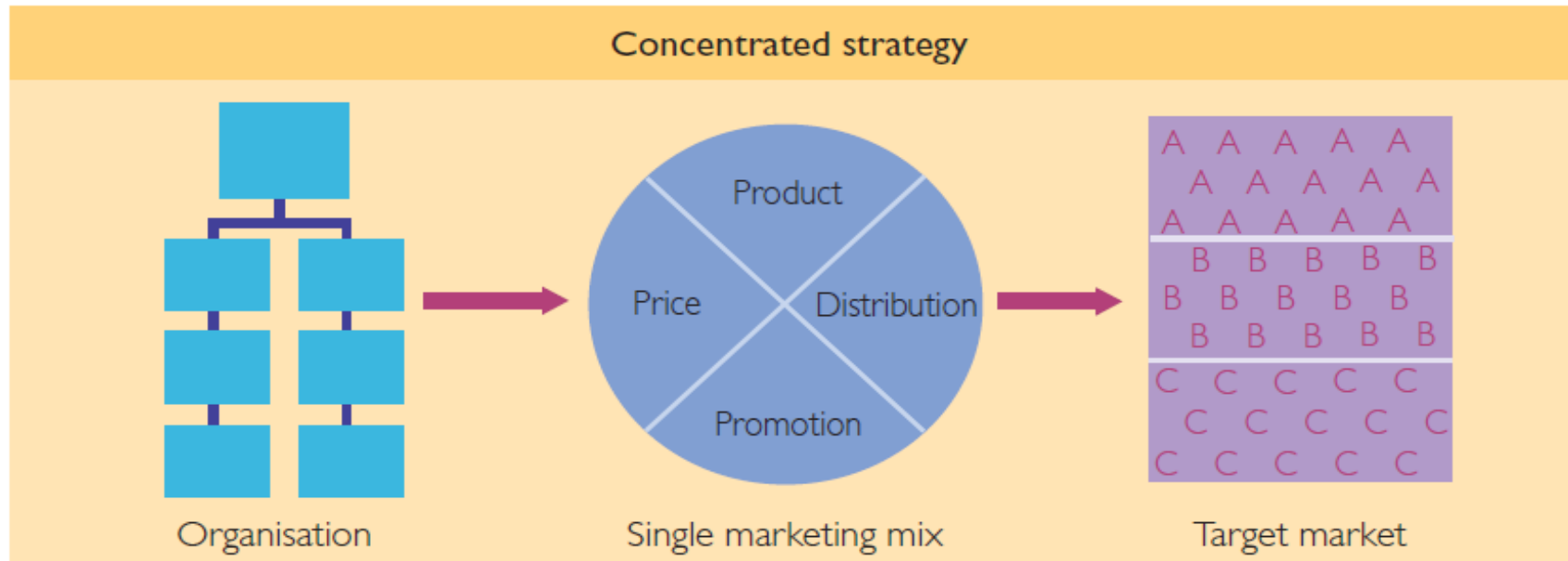


Figure 5.5, Pride 2e, p. 171



Targeting strategies – differentiated strategy

- Organisation targets two or more segments by developing a marketing mix for each
- Appropriate for heterogeneous market

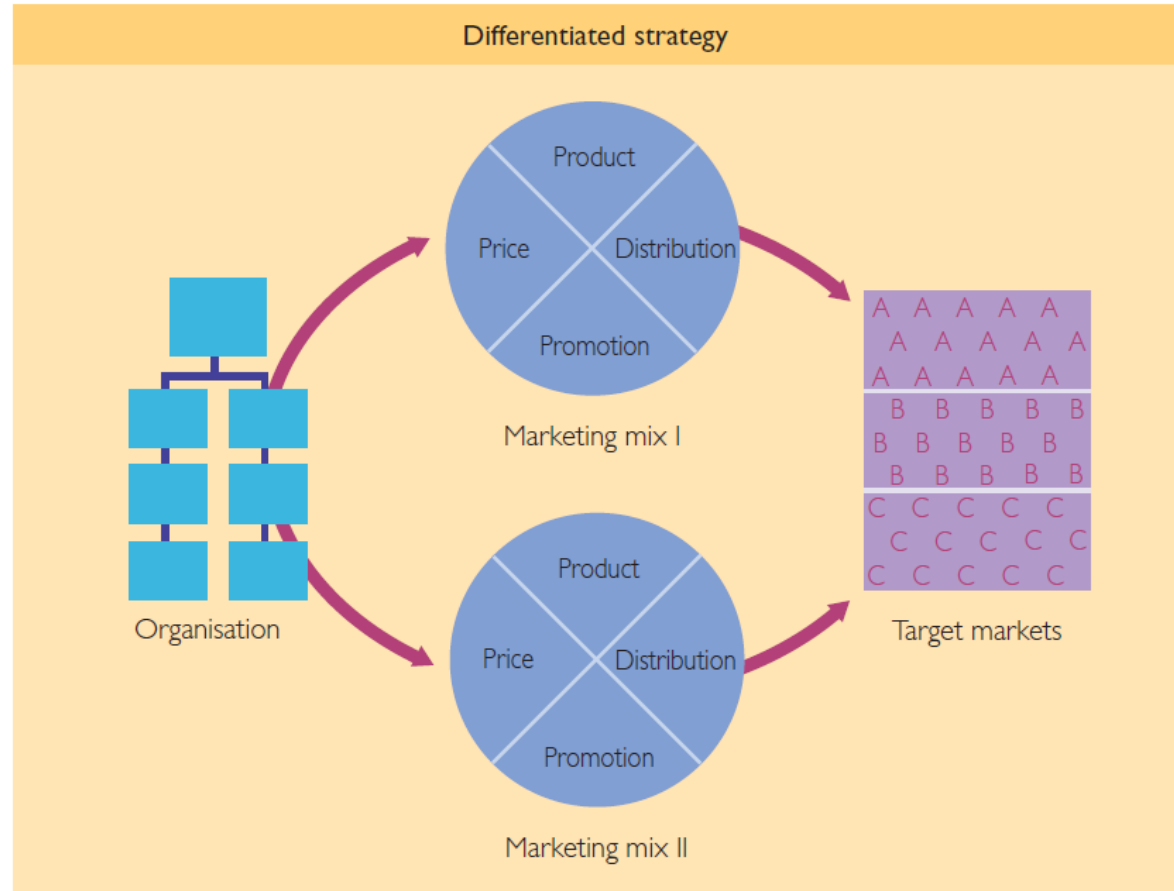


Figure 5.5, Pride 2e, p. 171



Step 2: Determine the segmentation variables

- Segmentation variables: characteristics of individuals, groups or organisations used to divide a market into segments

Demographic variables

- ▶ Age
- ▶ Gender
- ▶ Race
- ▶ Ethnicity
- ▶ Income
- ▶ Education
- ▶ Occupation
- ▶ Family size
- ▶ Family life cycle
- ▶ Religion
- ▶ Social class

Geographic variables

- ▶ Region
- ▶ Urban, suburban, rural
- ▶ City size
- ▶ County size
- ▶ State size
- ▶ Market density
- ▶ Climate
- ▶ Terrain

Psychographic variables

- ▶ Personality attributes
- ▶ Motives
- ▶ Lifestyles

Behaviouristic variables

- ▶ Volume usage
- ▶ End use
- ▶ Benefit expectations
- ▶ Brand loyalty
- ▶ Price sensitivity

Figure 5.1, Pride 2e, p. 159



Segmentation variables – demographic

- Market segmentation based on demographic variables such as:
 - Age
 - Gender
 - Race
 - Income
 - Education
 - Occupation
 - Family size
 - Family life cycle



Segmentation variables – geographic

- Market segmentation based on geographic variables such as:
 - Climate
 - Terrain
 - City size
 - Population density
 - Urban/rural areas
- This segmentation considers national boundaries, regional districts or even suburban postcode



Segmentation variables – geographic

- Market density
 - The number of potential customers within a unit of land area
- Geo-demographic segmentation
 - Market segmentation that clusters people in postcode areas and smaller neighbourhood units based on lifestyle and demographic information
- Micromarketing
 - An approach to market segmentation in which organisations focus precise marketing efforts on very small geodemographic markets



Segmentation variables – psychographic

- Market segmentation based on psychographic variables such as personality, motives and lifestyle
- Psychographic variables can be used independently to segment a market but are more commonly combined with other types of segmentation variables



Segmentation variables – behavioural

- Market segmentation based on behaviouristic variables such as usage rate, usage/application type and benefit sought
- Benefit segmentation – dividing a market according to the benefits that customers seek from the product
- If used, the segment must be identifiable, recognisable and accessible to marketing efforts



Step 3: Develop market segment profiles

- A market segment profile describes the similarities of potential customers within a segment and explains the differences among people and organisations in different segments
- Profile benefits marketers in several ways:
 - Determining most attractive segment(s)
 - Potentially useful information for subsequent marketing decisions



Step 4: Evaluate relevant market segments

- After analysing the segment profiles, a marketer has identified several relevant market segments which require further analysis
- Factors to consider when assessing relevant market segments:
 - Sales estimates
 - Competitive assessment
 - Cost estimates



Evaluation using sales estimates

- Market potential
 - Total amount of product that customers will purchase in a specified period at a specific level of industry-wide marketing activity
- Company sales potential
 - Maximum percentage of market potential a company can expect for a product
 - Breakdown approach
 - Buildup approach



Evaluation using competitive assessment

- Without competitive assessment, sales estimates can be misleading
- The following questions need to be answered for a competitive assessment
 - How many competitors exist?
 - What are their strengths and weaknesses?
 - Do several competitors have a major market share?
 - Can we create a competitive marketing mix?
 - Will new competitors enter this segment?
 - If so, can we still compete successfully?



Evaluation using cost estimates

- Developing and maintaining a marketing mix that fulfills the needs of a target segment, is expensive
- Factors affecting costs include:
 - Distinctive product features
 - Attractive package design
 - Generous product warranties
 - Extensive advertising
 - Attractive promotional offers
 - Competitive prices
 - High quality personal service



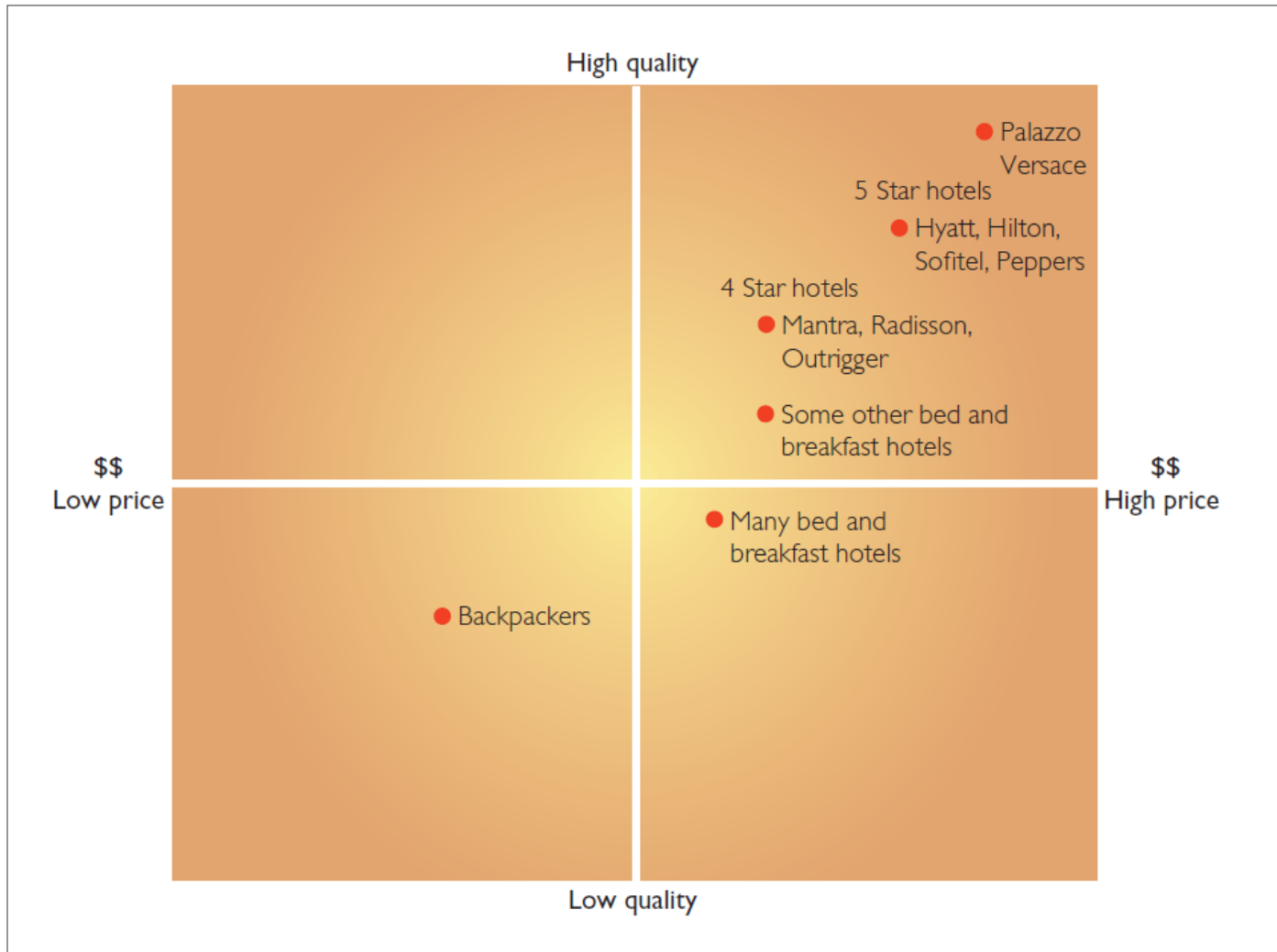
Step 5: Select specific target markets

- In selecting a target market, it must be determined if the customers' needs differ enough to warrant use of market segmentation
- Segmentation analysis will show if the customers' needs are homogeneous and would benefit from an undifferentiated targeting strategy
- Or, if the customers' needs are heterogeneous, one or more target markets must be selected
- Assuming one or more segments offer significant opportunities, marketers must decide in which segments to participate

Product positioning

- Creating and maintaining a certain concept of a product in customers' minds
- Bases for positioning:
 - Product feature
 - Product benefit/advantage
 - price, quality or brand reputation
 - Competitors

Perceptual mapping



(Figure 5.6, Pride 2e, p. 180)

Product repositioning

- Regular evaluation of current position of existing product is important
- Product repositioning may be required to strengthen market share and profitability
- Repositioning can be done through:
 - Changing the product physically
 - Revising its pricing and/or distribution strategy
 - Changing the product image
 - Targeting a different market



Summary

- Segmentation is crucial for marketers as it assists them to gain a greater understanding of their customers' needs.
- Marketers should employ relevant segmentation variables when segmenting their market.
- No one best approach to target the market(s). Marketers need to evaluate relevant market segments and wisely decide which one(s) they want to serve.
- For competitive advantage, marketers need to position their product(s) properly. In some cases, marketers need to re-position their product(s) to strengthen market share and profitability.