

Lecture 6 market segmentation

CHAPTER

9

**IDENTIFYING
MARKET SEGMENTS
AND TARGETS**

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LECTURE QUESTIONS:

- **Definition of Market segmentation**
- **Different factors used to segment consumer and organizational markets.**

LECTURE QUESTIONS:

- **The significance of heavy users in targeting markets.**
- **Market-product grid**
- **Product positioning**

WHY SEGMENT MARKETS?

- **What Market Segmentation Means**
 - **Market Segmentation**
 - **Market Segments**
 - **Product Differentiation**
 - **Segmentation: Linking Needs to Actions**

Market Segmentation

Market segmentation involves aggregating prospective into groups that (1) have common needs and (2) will respond similarly to a marketing action.



Market Segments

Market segments are relatively homogeneous groups of prospective buyers that result from the process of market segmentation and are similar to each other in terms of their consumption behavior.



Product Differentiation

Product differentiation is a strategy that involves a firm's using different marketing mix activities to help consumers perceive the product as being different and better than competing products.



Market segmentation links market needs to an organization's marketing program

Identify market needs

Benefits in terms of

- Product features
- Expense
- Quality
- Savings in time and convenience



Process of
segmenting and
targeting markets



Execute marketing program

A marketing mix in terms of

- Product
- Price
- Promotion
- Place

WHY SEGMENT MARKETS?

- **What Market Segmentation Means**
 - **How Reebok's Segmentation Strategy Developed**
 - **Using Market-Product Grids**
 - **Market-Product Grid**

Market-Product Grid

A **market-product grid** is a framework to relate the segments of a market to products offered or potential marketing actions by the firm.



WHY SEGMENT MARKETS?

- **When to Segment Markets**
 - **Examples of Successful Market Segmentation**
 - **Customer Relationship Management (CRM)**
 - **Mass Customization**
 - **Build-to-Order (BTO)**
 - **The Segmentation Trade-Off: CRM vs. Synergies**
 - **Synergy**

Synergy

Synergy is the increased customer value achieved through performing organizational functions more efficiently.



Concept Check

1. Market segmentation involves aggregating prospective buyers into groups that have two key characteristics. What are they?

A: The groups should (1) have common needs and (2) respond similarly to a marketing action.

Concept Check

2. What is product differentiation?

A: Product differentiation involves a firm's using different marketing mix activities to help consumers perceive the product as being different and better than competing products.

Concept Check

3. The process of segmenting and targeting markets is a bridge between what two marketing activities?

A: These activities are (1) identifying market needs and (2) taking marketing actions.

STEPS IN SEGMENTING AND TARGETING MARKETS

- **Step 1: Form Potential Buyers into Segments**
 - **Criteria to Use in Forming the Segments**
 - **Increased Profit**
 - **Similarity of Needs Among Segments**
 - **Difference of Needs Between Segments**
 - **Marketing Action to Reach a Segment**
 - **Simplicity & Cost of Assigning Buyers to Segments**

The process of segmenting and targeting markets involves five key steps



STEPS IN SEGMENTING AND TARGETING MARKETS

- **Step 1: Form Potential Buyers into Segments**

- **Ways to Segment Consumer Markets**

- **Customer Characteristics**

- **Region**
- **Household Size**
- **Lifestyle**

- **Buying Situations**

- **Benefits Sought**
- **Usage Rate**
- **80/20 Rule**

Usage Rate

The **usage rate** is the quantity consumed or patronage during a specific period of time.



80/20 Rule

The **80/20 rule** is a concept that suggests 80 percent of a firm's sales are obtained from 20 percent of its customers.



STEPS IN SEGMENTING AND TARGETING MARKETS

- **Step 1: Form Potential Buyers into Segments**
 - **Variables to Use in Forming Segments**
 - **Ways to Segment Organizational Markets**
 - **Location**
 - **Number of Employees**
 - **NAICS Code**
 - **Benefits Sought**

STEPS IN SEGMENTING AND TARGETING MARKETS

- **Step 2: Form Products to be Sold into Groups**
- **Step 3: Develop a Market-Product Grid and Estimate Size of Markets**

STEPS IN SEGMENTING AND TARGETING MARKETS

- **Step 4: Select Target Markets**
 - **Criteria to Use in Picking the Target Segments**
 - **Market Size**
 - **Expected Growth**
 - **Competitive Position**
 - **Cost of Reaching Segment**
 - **Compatibility with the Organization's Objectives and Resources**
 - **Choose the Segments**

STEPS IN SEGMENTING AND TARGETING MARKETS

- **Step 5: Take Marketing Action to Reach Target Markets**
 - **Your Wendy's Segmentation Strategy**
 - **Apple's Ever-Changing Segmentation Strategy**

STEPS IN SEGMENTING AND TARGETING MARKETS

- **Market-Product Synergies:
A Balancing Act**
 - **Marketing Synergies**
 - **Product Synergies**

Concept Check

1. What are some of the variables used to segment consumer markets?

A: These variables include demographic (gender, age, etc.), geographic (region, city size, etc.), socioeconomic (income, education, etc.), psychographic (lifestyle, etc.), benefits sought (features, quality, etc.) and usage rate (light/medium/heavy user).

Concept Check

2. What are some criteria used to decide which segments to choose for targets?

A: These criteria include market size, expected growth, competitive position, cost of reaching the segment, and compatibility with the organization's objectives and resources.

Concept Check

3. Why is usage rate important in segmentation studies?

A: Usage rate is the quantity consumed during a specific time period and varies among different customer groups. In many cases, 80% of a firm's sales are obtained from 20% of its customers—the “heavy users.” As a result, these target consumers are the most important to the firm.

POSITIONING THE PRODUCT

- **Product Positioning Using Perceptual Maps**
 - **Product Positioning**
 - **Perceptual Map**
 - **Positioning Chocolate Milk for Adults**

Concept Check

1. What is product positioning?

A: Product positioning refers to the place an offering occupies in consumers' minds on important attributes relative to competitive offerings.

Concept Check

2. Why do marketers use perceptual maps in product positioning decisions?

A: Marketers use perceptual maps to display in two dimensions the location of their and competing products or brands to see how consumers perceive them and then take marketing actions.

Product Positioning

Product positioning refers to the place an offering occupies in consumers' minds on important attributes relative to competitive offerings.



Perceptual Map

A **perceptual map** is a means of displaying or graphing in two dimensions the location of products or brands in the minds of consumers to enable a manager to see how consumers perceive competing products or brands and then take marketing actions.

