# MARKETING THEORIES AND PRACTICES

## Unit 4: Market Segmentation, Targeting and Positioning

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# Introduction

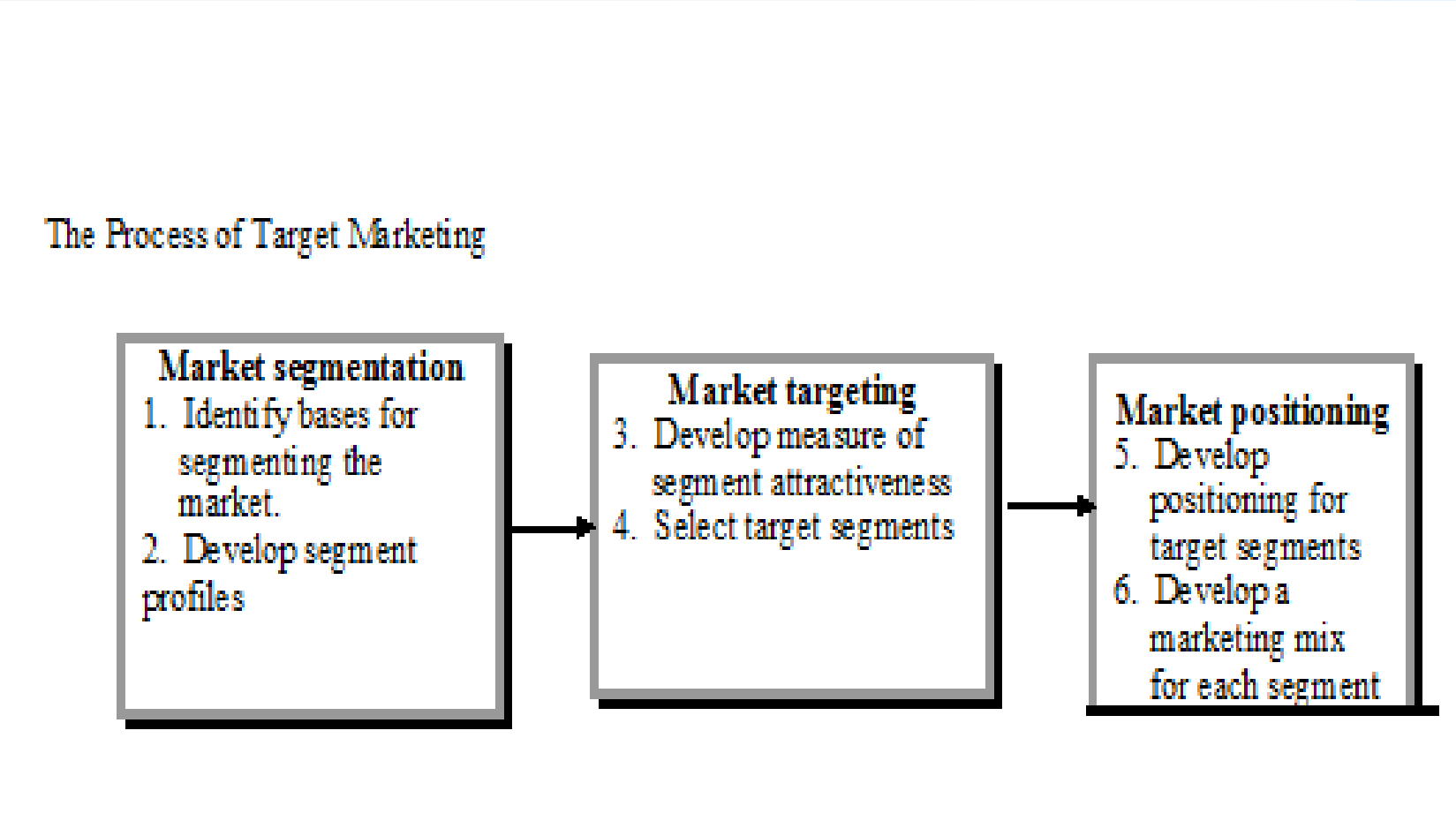
**Basic questions**

1. Are all customers having same needs?
2. Does one size fit all?

Answer:

- Organizations recognize that they cannot appeal to all buyers in those markets, or at least not to all buyers in the same way. **This is B/C:**
  - ✓ ***Buyers are too numerous, too widely scattered and too varied in their needs and buying practices.***
  - ✓ **Companies vary widely in their abilities to serve different segments of the market**.

# The Process of Target Marketing



# Market Segmentation

- Market segmentation—dividing the market into subsets of customers that behave similarly.
- Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently with products and services that match their unique needs.

# Market Segmentation

- **Market Aggregation Vs. Market segmentation**

## Market aggregation

- ✓ The total market is viewed as a single unit as one mass, aggregate market.
- ✓ The objective of aggregation is to fit the market to the product

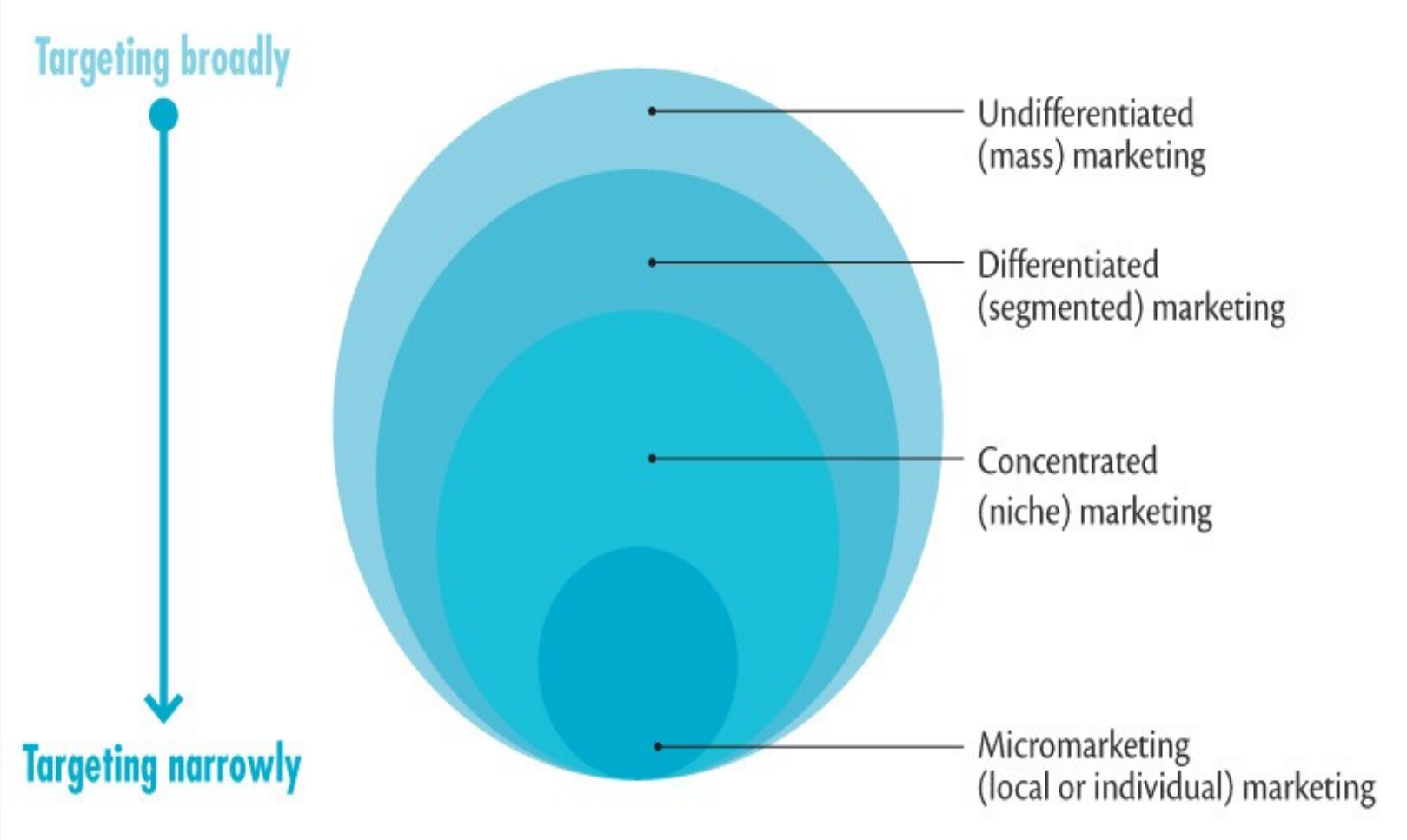
## Market Segmentation

- ✓ Views a market as being composed of many smaller, homogenous units
- ✓ The objective is to fit the product to the market believing that each segment calls for a different product, promotional appeal, or other element in the marketing mix.

# Rational for Market Segmentation

- Buyers are too numerous,
- Buyers are too widely scattered,
- Buyers are too varied in their needs and buying practices
- Companies themselves vary widely in their abilities to serve different segments of the market.

# Level of Market Segmentation



# Level of Market Segmentation

- Segmentation is thus a compromise between mass marketing, which assumes everyone can be treated the same, and the assumption that each person needs a dedicated marketing effort.
- Market segmentation can be carried out at many different levels.
  - ✓ Companies can practice ***no segmentation (mass marketing)***, ***complete segmentation (micromarketing)*** or ***something in between (segment marketing or niche marketing)***.

# Levels of Segmentation

**Undifferentiated (Mass) marketing**

- Mass producing, mass distributing and mass promoting about the same product in about the same way to all consumers.
- It focus on commonness but it ignore the different
- The main **advantage** of this target is achieving economies of scale.

# Levels of Segmentation

## Undifferentiated (Mass) marketing

- ✓ The **limitations** are:
  - ✓ Problems arise in appealing all the customers with one offer and difficult in penetrating focused markets

- The traditional argument for mass marketing is that it ***creates the largest potential market***, which leads to the ***lowest costs***, which in turn can translate into either ***lower prices or higher margins.***

# Levels of Segmentation

## Segmenting Markets

- A company that practices segment marketing recognizes that buyers differ in their needs, perceptions and buying behaviors.
- A *market segment* consists of a large identifiable group within a market, with similar wants, purchasing power, geographical location, buying attitudes, or buying habits.
- It focus on different but ignore commonness.

# Levels of Segmentation

## Segmenting Markets

- With this strategy a firm decides to target several market segment and design separate offers for each.
- **Advantage:** The company hopes **increasing sales and strong position** with in each market segment
- The main **problem** is ***increasing cost***.
  - More expensive than undifferentiated marketing
    - Extra marketing research
    - Forecasting, sales analysis, promotion, planning, and channel management
    - Extra promotion, advertising

# Levels of Segmentation

**Concentrating or Niche Marketing Strategy**

- ✓ A *niche* is a more narrowly defined group, typically a small market whose needs are not being well served.
  - ***Niche marketing*** focuses on subgroups within these segments.
- **Niche offers** smaller companies an opportunity to compete by focusing their limited resources on serving niches that may be **unimportant to or overlooked by larger competitors.**

# Levels of Segmentation

**Concentrating or Niche Marketing Strategy**

- ✓ segments are fairly large and normally attract several competitors, whereas, niches are fairly small and may attract only one or two rivals
  - Niche marketing is appealing when
    - ✓ Limited resources
    - ✓ Greater knowledge of consumer needs in the niches
    - ✓ Special reputation

# Levels of Segmentation

**Concentrating or Niche Marketing Strategy**

It mainly focus on small groups.

**Advantage:** increase sales

**Disadvantage:** it involves higher risks. i.e. If the competitors decide to enter the market, the company automatically destroyed.

# Levels of Segmentation

## Concentrating or Niche Marketing Strategy

- In an attractive niche:
  - Customers have a distinct set of needs;
  - They will pay a premium to the firm that best satisfies their needs;
  - The niche is not likely to attract other competitors;
  - The niche gains certain economies through specialization; and
  - The niche has size, profit, and growth potential.

# Levels of Segmentation

## Micro-Marketing

- Micromarketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations.
- ***Micromarketing includes:***

# Levels of Segmentation

**Micro-Marketing includes:**

***Local marketing (***tailoring brands and promotions to the **needs and wants of local customer groups** - cities, neighborhoods and even specific stores)

# Levels of Segmentation

## **Micro-Marketing :** ***Local marketing***

- Those favoring local marketing see national advertising as wasteful because it fails to address local needs.
- On the other hand, opponents argue that local marketing drives up manufacturing and marketing costs by reducing economies of scale.
- Moreover, logistical problems become magnified when companies try to meet varying local requirements, and a brand's overall image might be diluted if the product and message differ in different localities.

# Levels of Segmentation

**Micro-Marketing includes:**

***Individual Marketing (***tailoring products and marketing programs to **the needs and preferences of individual customers)**

# Levels of Segmentation

**Micro-Marketing:** ***Individual Marketing***

- The ultimate level of segmentation leads to "segments of one," "customized marketing, "or "one-to-one marketing.
- Much business to-business marketing today is customized, in that a manufacturer will customize the offer, logistics, communications, and financial terms for each major account.

# Levels of Segmentation

**Micro-Marketing:** ***Individual Marketing***

- ✓ *Mass customization* is the ability to prepare individually designed products and communications on a mass basis to meet each customer's requirements.

# Benefits of Market Segmentation

- Market segmentation is a customer - oriented philosophy.
- Specifically, it has the following benefits
  - Investing money and effort to most profitable market.
  - Designing and developing products, which match with the market demand as it focuses on selected target markets;
  - Choosing the best promotional activity and channel of distribution at a relatively lower cost
  - It helps to determine an appropriate marketing mix strategy for a segment.
  - Flexibility of organizational resources and programs in the time of fierce competition can be done at a lower cost.

# Bases for Segmenting Consumer Markets

- In segmenting consumer markets, marketers can apply:
  - Geographic,
  - Demographic,
  - Psychographic variables, and
  - Behavioral variables

# Geographic Segmentation

- *Geographic segmentation calls for dividing the market into different geographical units* such as nations, states, regions, counties, cities, or neighborhoods.
  - A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants.
  - Ex.- Mcdonalds globally, sell burgers aimed at local markets, for example, burgers are made from lamb in India rather then beef because of religious issues. In Mexico more chilli sauce is added and so on.

# Demographic Segmentation

- **Demographic segmentation** consists of dividing the market into groups based on variables such as **age, gender, family size, family life cycle, income, occupation, education, religion, race and nationality.**

- Demographic factors are the most popular bases for segmenting customer groups. B/C of :

1. **Consumer needs, wants and usage rates often vary closely with demographic variables.**
2. **Demographic variables are easier to measure than most other types of variable.**

# Demographic Segmentation

- ✓ Here is how certain demographic variables have been used to segment consumer markets:
- *Age and life-cycle stage:* Consumer wants and abilities change with age,
- *Gender:* Gender segmentation has long been applied in clothing, hairstyling, cosmetics, and magazines.
- *Social class:* Social class strongly influences preference in cars, clothing, home furnishings, leisure activities, reading habits, and retailers, which is why many firms design products for specific social classes.

# Demographic Segmentation

- *Income:* Income segmentation is a long-standing practice in such categories as automobiles, boats, clothing, cosmetics, and travel.
  - *However, income does not always predict the best customers* for a given product.
  - The most economical cars are not bought by the really poor, but rather by those who think of themselves as poor relative to their status aspirations; medium-price and expensive cars tend to be purchased by the over privileged segments of each social class.

# Psychographic Segmentation

- In *psychographic segmentation,* buyers are divided into different groups on the basis of lifestyle or personality and values. People within the same demographic group can exhibit very different psychographic profiles.

# Psychographic Segmentation

- *Lifestyle:* People exhibit many more lifestyles than are suggested by social classes, and the goods they consume express their lifestyles.
- *Personality:* Marketers can endow their products with *brand personalities* that correspond to consumer personalities.

  Apple Computer's iMac computers, for example, have a friendly, stylish personality that appeals to buyers who do not want boring, ordinary personal computers.

# Psychographic Segmentation

- *Values:* Core values are the belief systems that underlie consumer attitudes and behaviors.
- Core values go much deeper than behavior or attitude, and determine, at a basic level, people's choices and desires over the long term.

# Psychographic Segmentation

- Although values often differ from culture to culture, Roper Reports has identified six values segments stretching across 35 Countries:
  - Strivers (who focus more on material and professional goals),
  - Devout (who consider tradition and duty very important),
  - Altruists (who are interested in social issues),
  - Intimates (who value close personal relationships and family highly),
  - Fun seekers (who tend to be younger and usually male), and
  - Creative's (who are interested in education, knowledge, and technology).

# Behavioral Segmentation

- ✓ In *behavioral segmentation,* buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product.
- ✓ Many marketers believe that behavioral variables—occasions, benefits, user status, usage rate, loyalty status, buyer-readiness stage, and attitude—are the best starting points for constructing market segments.

# Behavioral Segmentation

- ✓ *Occasions:* Buyers can be distinguished according to the occasions on which they develop a need, purchase a product, or use a product.
- ✓ *Benefits:* Buyers can be classified according to the benefits they seek. One study of travelers uncovered three benefit segments: those who travel to be with family, those who travel for adventure or education, and those who enjoy the "gambling" and "fun" aspects of travel.

# Behavioral Segmentation

- ✓ *User status:* Markets can be segmented into nonusers, ex-users, potential users, first time users, and regular users of a product.
  - Market leaders focus on attracting potential users, whereas smaller firms try to attract users away from the leader.

# Behavioral Segmentation

- ✓ *Usage rate:* Markets can be segmented into light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption.
  - Marketers usually prefer to attract one heavy user rather than several light users, and they vary their promotional efforts accordingly.

# Behavioral Segmentation

- ✓ *Loyalty status*. Buyers can be divided into four groups according to brand loyalty status:
  I. Hard-core loyals (who always buy one brand),
  II. Split loyals (who are loyal to two or three brands),
  III. Shifting loyals (who shift from one brand to another, and
  IV. Switchers (who show no loyalty to any brand).

# Behavioral Segmentation

- *Buyer-readiness stage:* A market consists of people in different stages of readiness to buy a product:
  - Some are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. The relative numbers make a big difference in designing the marketing program.

# Segmenting for Business Markets

- Demographic
- Operating Variable
- Purchasing Approaches
- Situational Factors
- Personal Characteristics

# Segmentation for Business Markets

- Organizational size
  - Annual sales turn over
  - Number of employees
  - Volume of production
- Industry sector
  - Banking (service)
  - Manufacturing
  - Mining, and others
- Geographical location
  - Domestic and
  - Export markets

# Segmenting for Business markets

## ***Demographic Variables***

1. *Industry: Which industries should we serve?*
2. *Company size: What size companies should we serve?*
3. *Location: What geographical areas should we serve?*

# Segmenting for Business markets

## ***Operating Variables***

I. *Technology: What customer technologies should we focus on?*

II. *User or nonuser status: Should we serve heavy users, medium users, light users, or* nonusers?

III. *Customer capabilities: Should we serve customers needing many or fewer services?*

# Segmenting for Business markets

## Purchasing Approaches

I. *Purchasing-function organization: Should we serve companies with highly centralized or* decentralized purchasing organizations?

II. *Power structure: Should we serve companies that are engineering dominated, financially* dominated, and so on?

III. *Nature of existing relationships: Should we serve companies with which we have strong* relationships or simply go after the most desirable companies?

IV. *General purchase policies: Should we serve companies that prefer leasing? Service* contracts? Systems purchases? Sealed bidding?

V. *Purchasing criteria: Should we serve companies that are seeking quality? Service? Price?*

# Segmenting for Business Markets

## ***Situational Factors***

I. *Urgency: Should we serve companies that need quick and sudden delivery or service?*

II. *Specific application: Should we focus on certain applications of our product rather* than all applications?

III. *Size of order**:** Should we focus on large or small orders?*

# Segmenting for Business Markets

## ***Personal Characteristics***

1. *Buyer–seller similarity: Should we serve companies whose people and values are* similar to ours?
2. *Attitudes toward risk: Should we serve risk-taking or risk-avoiding customers?*
3. *Loyalty: Should we serve companies that show high loyalty to their suppliers?*

# Effective Segmentation Criteria

- Measurable
- Substantial
- Accessible
- Differentiable
- Actionable

# Requirements for Effective Segmentation

- ***Measurable:*** *The size, purchasing power, and characteristics of the segments can be* measured.
- ***Substantial:*** *The segments are large and profitable enough to serve. A segment* should be the largest possible homogeneous group worth going after with a tailored marketing program.
- ***Accessible:*** *The segments can be effectively reached and served.*

# Requirements for Effective Segmentation

- ***Differentiable:*** *The segments are conceptually distinguishable and respond differently* to different marketing mixes. If two segments respond identically to a particular offer, they do not constitute separate segments.
- ***Actionable:*** *Effective programs can be formulated for attracting and serving the* segments.

# Next Class . . .

-Target Marketing

-Mid-Exam

# Exam Type

**Multiple** Choice

1. Which of the following is NOT a core marketing concept?
   - Market orientation
   - Production orientation
   - Selling orientation
   - Societal marketing orientation

**Short Answer**

1.What are the different types of promotional mix?

**Essay**

1. Discuss the importance of customer value in marketing.

# THANK YOU!