

Market Segmentation

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Market segmentation is the method for achieving maximum market response from initial marketing resources by recognizing differences in the response characteristics of various parts of the market. In this sense market segmentation is the strategy of divide and conquer, i.e., dividing market in order to conquer them.

Market segmentation enables the marketers to give better attention to the selection of customers and offer an appropriate marketing mix for each chosen segment or a group of buyers having homogenous demand. Each subdivision or segment can be selected as a market target to be reached with a distinct marketing mix.

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Market segmentation is defined as the segmentation or division of markets into various homogenous groups of customers, each of them reacting differently to promotion, communication, pricing and other variables of the marketing mix. Market segments should be formed in such a way that difference between buyers within each segment is as small as possible.

Thus, every segment can be addressed with an individually targeted marketing mix. Market segmentation and the identification of target markets are an important element of each marketing strategy. The importance of market segmentation results from the fact that the buyers of a product or a service are no homogenous group.

Actually, every buyer has individual needs, preferences, resources and behaviours. Since it is virtually impossible to cater for every customer's individual characteristics, the marketing people group customers into various market segments by variables they have in common. These common characteristics allow developing a standardised marketing mix for all customers in this segment. They are the basis for determining any particular marketing mix.

Very often, companies shape their market segmentation using the results of market research and analysis. Market segmentation research is not designed to shape the market. Rather, it reveals underlying divisions in the market and characteristics of the market segments that can be used for effective and profitable marketing.

Market Segmentation

At the very least, segmentation research places the steps companies take on a firm factual foundation. Often, it also uncovers characteristics of the market that are not obvious and identifies ways of dividing and approaching the market that will be particularly effective. If these ways are not evident to competitors, the marketing impact of segmentation research can be even more beneficial.

At a more tactical level, market segmentation can make the choices a company faces in developing products, services, and marketing messages easier. Often, market segmentation shows that many conceivable combinations of interest in product features, combinations of service needs, or combinations of attitudes are actually very rare in the marketplace.

Segmentation refers to a process of bifurcating or dividing a large unit into various small units which have more or less similar or related characteristics. The concept of market segment is based on the fact that the market of commodities are not homogeneous but they are heterogeneous. Market represents a group of customer having common characteristics but two customer are never similar in their nature, habits, hobbies, income and purchasing techniques.

Market segmentation is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs, and then designing and implementing strategies to target their needs and desires using media channels and other touch-points that best allow to reach them.

Market segments allow companies to create product differentiation strategies to target them.

So it can be concluded here that companies cannot connect with all customers in large, broad, complex or diverse markets. But division of such markets is possible into groups of consumers or segments with distinct needs and wants. After that organization can select any segment in which it can perform well and which is best suited for the overall interest of the organization.

This decision requires a keen understanding of the customer behavior. To develop the best marketing mix, marketer need to understand what makes each segment unique and different. Identification and satisfaction of the right market segment is often the key to marketing success.

2.Definitions of Market Segmentation:

In order to be a true market segment, the people or organizations in each segment must respond differently to variations in the marketing mix compared with those in other segments. This implies that for any classification, scheme to qualify as market segmentation, the segments must exhibit these behavioral response differences.

Paul Green and Donald Tull set four basic criteria for market segmentation:

- 1/ The segments must exist in the environment (and not be a figment of the researcher's imagination)
- 2/ The segments must be identifiable (repeatedly and consistently)
- 3/ The segments must be reasonable stable over time, and
- 4/ One must be able to efficiently reach segments (through specifically targeted distribution and communication initiatives).

According to Schiffman and Kanuk, "Market Segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix".

Rajan Saxena defines, "Segmentation as the process of dividing heterogeneous market into homogeneous sub units."

As per S.J. Skinner, "Market segmentation is the process of dividing a total market into groups of consumers who have relatively similar product needs."

Thus, on the basis of the above definitions, it can be concluded that segmentation is to divide a market composed of consumers with diverse characteristics and behaviors into homogeneous segments that contain persons who will all respond similarly to a firm's marketing effort.

The concept of market segment is based on the fact that the markets of commodities are not homogeneous but they are heterogeneous. Market represents a group of customers having common characteristics but two customers are never common in their nature, habits, hobbies, income and purchasing techniques. They differ in their behavior and buying decisions. On the basis of these characteristics, customers having similar qualities are grouped in segments.

According to Philip Kotler, "Market segmentation is sub-dividing a market into distinct and homogeneous subgroups of customers, where any group can conceivably be selected as a target market to be met with distinct marketing mix".

According to William J. Stanton, "Market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-market or segments, each of which tends to be homogeneous in full significant aspects".

According to R. S. Davar, “Grouping of buyers or segmenting the market is described as market Segmentation.”

The main aim of market segmentation is to prepare separate programmes or strategies to all segments so that maximum satisfaction to consumers of different segments may be provided. In the words of Philip Kotler, “the purpose of market segmentation is to determine difference among them or marketing to them.”

3.Characteristics:

Another aspect is the criteria for effective targeting of market segments. The marketers will have to select one or more segments to target with an appropriate marketing mix. For a segment to be viable, it must have the following characteristics:

a/ Identification: To facilitate division of the market in various segments based on certain common characteristics relevant to a particular product or service, the marketers must be in a position to identify these characteristics. It is easy to identify certain segmentation variables because they are easily visible or observable.

These are demographics such as age, sex, marital status, education and occupation. This information about demographic variables can be obtained either through observation or through research (by using questionnaires). Similarly, geographic segmentation (region, city size, density of area and climate) can easily be identified as they are observable or through mapping. But there are certain characteristics which are not easily identifiable.

These could be a part of the psychographics, like benefits sought or lifestyle. And it is such intangible consumer behaviour characteristics which will help the marketers, to use it as a base for market segmentation.

b/ Measurability: Another important characteristic ascertains the degree of measurability of the size and purchasing power of the segments. The marketer must be able to determine the size of the market that is to find out how many people are there in the segment and where they are located.

The marketer must be able to measure the sales potential of the particular segment and also be able to determine the extent of influence of the marketing mix elements on the particular segment. For instance, a restaurant may want to improve upon the F & B services offered by it.

The size of the customers will include regular customers as well as occasional customers, the latter may eat and drink (especially the youngsters) to rebel against their parents. A knowledge of such consumer behaviours, though difficult to measure will be useful to the marketer.

c/ Accessibility: The extent to which the market segments can be reached and served is another area of concern. The consumers must be accessible or available to the marketers. For instance, a company which sells 'skin care products', may find that heavy users of its brand are teenagers and young women, who are frequent visitors at fast-food centres and beauty parlours.

But unless the firm is able to get more information on places or store preferences and exposure to various media's it will be difficult to reach this consumer segment. Because once the firm has found a medium that reaches their consumers, it can communicate with it's target segment effectively. Marketers try to reach their consumers through "differentiated marketing for differentiated consumer profiles".

d/ Substantiality: Another matter of concern for the marketer is the extent to which the segments are large enough and worthy of investment. For a market segment to be worthwhile, it must have a large number of people with specific needs and interests. The size of the large segment must be big enough to be economically viable. The size of the market is not the only indicator of the economic worthiness of the segment.

It is also necessary to undertake consumer research methodology to determine whether the consumers are dissatisfied or only partly satisfied with the existing products and whether they are willing to pay for the firm's product. The target segment should be a large homogeneous group worth focusing with a tailored marketing programme.

For instance, a company may observe that 'retired persons' prefer to have a rocking chair. But going by the problem faced of space availability in houses, the size of the market is shrinking in nature. In this case the particular segment will not be substantial to make it a market.

e/ Stability: Marketers would like to target consumers whose behaviours can be predicted. The marketers want to be sure of the stability of the consumers in terms of their demographic and psychological characteristics and wants and needs which are likely to grow faster over a period of time. Marketers would like to avoid 'fads' which may disappear one day because it is unpredictable in terms of durability.

A few years ago the travel industry noticed that when the 'airfares' were reduced (especially with the entry of the low cost airlines) many middle class customers were exposed to a taste of international travel for leisure.

Today, when economic recession could have a negative impact on the travel plans of most persons, the industry is attempting at segmenting the market by offering special product service offerings to niche market segments. This is aimed at out bound tourists who are moving beyond the popular all family group tours.

Travel companies are now offering segmented (customised) holiday offerings for men and women separately. For instance, Kesari Travels (Mumbai) has 'My Fair Lady'

offering trips for the woman who would like to let her hair down in the company of other women. They have built up a community around its 'My Fair Lady' travellers.

The woman customers are offered a Club Card, with discounts from Card associate companies such as Tanishq, VLCC. They also keep the link alive through get-together organised periodically. The offerings include trips to a variety of domestic and international destinations.

4.Importance:

Some of the importance of market segmentation are described below:

1/ Co-Ordination of Product and Marketing Appeals – As market segmentation presents an opportunity to understand the nature of the market, the seller can adjust his thrust to attract the maximum number of customers by various publicity media and appeals.

2/ Better Position to Spot Marketing Opportunities – As the producer

can make a fair estimate of the volume of his sale and the possibilities of furthering his sales in the regions where response of the customers is poor.

3/ Allocation of Marketing Budget – It is on the basis of market segmentation that marketing budget is adjusted for a particular region or locality. Specific budget can be allocated according to different market segments.

4/ Meeting the Competition Effectively – It helps the producer to face the competition of his rivals effectively. The producer can adopt different strategies for different markets taking into account the rival's strategies.

5/ Effective Marketing Programme – It helps the producer to adopt an effective marketing programme and serve the consumer better at comparatively lower cost. Diverse marketing programmes can be attached for various segments.

6/ Evaluation of Marketing Activities – Market segmentation helps the manufacturer to find out and compare the marketing potentialities of the products. It helps to adjust production and using his resources in the most profitable manner. As soon as the product becomes obsolete, the product line could be diversified or discontinued.

Spotting of opportunities in right time is found essential to influence the target market. It is quite natural that the needs and requirements of different users living in different segments, regions are not identical. The marketers bear the responsibility of identifying the difference in preferences so that the strategic decisions are formulated in line with the same. This helps in sensitising the marketing resources. The marketing inputs are found instrumental in developing the required marketing outputs.

We appreciate the crop insurance and cattle insurance facilities for furthering the interests of the agricultural sector, we feel that the insurance organisations come to

know the changing needs and requirements of the rural sector and innovate their services/schemes accordingly.

In addition to the mobilisation of savings, we also need to promote investments. This requires an overriding priority to the industrial sector or the corporate sector. The insurance organisations also need to identify profitable opportunities in the services sector.

Knowing and understanding the market is considered significant to the insurance professionals since the process helps them in scanning the changing needs and requirements. The formulation of an optimal marketing strategy is not possible unless we know a segment. The needs and requirements of industrial sector would be different to the needs and requirements of the agricultural sector.

Like this, the needs and requirements of rural sector would be different to the needs and requirements of urban sector. A study of segmentation would help insurance professionals in formulating a sound marketing strategy. The product mix would be competitive and all the prospects would have additional attractions in using the services.

The product portfolio would be sound which would make the marketing processes productive not only for the present but even for the future. The formulation of a sound package would act as a motivational tool. It is in this context that we find segmentation important to the formulation of product mix of the insurance organisations.

The segmentation would help insurance professionals in making the promotional measures creative which would be very much instrumental in sensitising the prospects. The advertisement professionals would make advertisement appeals, messages and campaigns proactive to the receiving capacity of the target audience. The sales promotion measures can also be innovated to get a positive response.

The personal selling may be effective since the sales personnel/agents are supposed to be aware of the needs and requirements of customers/users. Thus, the segmentation would help marketers in many ways. The pricing/fee decisions can also be rationalised and the weaker sections of the society would get substantial benefits. The main thing in segmentation is perceiving the expectations of users/prospects in a right fashion. If we succeed in understanding the users, we also succeed in making the marketing decisions proactive.

These facts are a mute testimony to this proposition that market segmentation would prove its instrumentality in knowing and understanding the changing level of expectations which would simplify the task of insurance professionals. They can also have an idea of identifying the emerging profitable segment of the future. In the Indian perspective, we find rural market to be a profitable market for both the bank and insurance organisations in the 21st century.

If the insurance professionals assign due weightage to the rural segment, they can make their services/schemes rural-oriented and such orientation would make the ways for positive developments. It is against this background that we find market segmentation an essential component of managing the marketing activities and the insurance organisations are supposed to intensify research for exploring new markets found more productive but generating less complications. We can't negate that the foreign insurance companies assign due weightage to market segmentation and it is due to the fact that they have an in-depth idea of the emerging profitable markets.

The purpose of insurance business is to cover the maximum possible potential policyholders. In addition, it is also pertinent that liquidity, safety and profitability are given due weightage. Mobilisation of savings and channelisation of investments, if done in a right way would make the insurance business productive.

A market is composed of different users and the corporate objectives focus on covering all the segments so that a sound product portfolio is designed in which the services/schemes of present and future are blended optimally. The market segmentation would make possible formulation of a sound market planning which would make the strategic decisions sensitive.

A closer view of smaller market aggregate would permit the planner to spot opportunities. The development of most profitable or attractive package of insurance services/schemes would also be possible with the help of segmentation. To maximise the rate of profitability, the marketers need to identify the profitable segments.

Since we also expect privatisation of insurance services or deregulating the business conditions, it is high time that the public sector insurance organisations in particular know about the emerging profitable segments.

It is right to say that segmentation needs a priority attention of insurance professionals. How to reach and influence the target market is found meaningful to accomplish the corporate objectives. The segmentation would help marketers in transforming the prospects into users.

Example: "Brooke Bond Lipton India Ltd. Ice Cream"

Segmentation in the ice cream market can be done in a number of ways. While developing strategies for its portfolio of products, an ice cream company such as Brooke Bond, Lipton India Ltd. can adopt one or more suitable segmentation processes to be followed up with effective targeting and positioning.

5.Bases of Segmentation:

a/ Income: The market can be assumed to take the shape of a pyramid with the various segments occupying the different layers. Base up, the pyramid (denoting the market) can be seen to be segmented into Base, Medium, Premium and Super Premium categories. The surface area of the layer is supposed to be an indication of

the strength of that segment (in terms of number of households). Kwaliti Wall's array of choices can be categorised according to the income segments they wish to address.

Example:

- * "Base – Mini milk, Ice Candies, etc."
- *Medium – Chocobar, etc.
- *Premium – Feast, Cornetto, etc.
- *Super-premium – Nothing in this segment as yet

b/ Age: Considering that consumers belonging to different age groups have different preferences (children—basic flavours; young adults—cones, etc.; adults—ethnic flavours), it is essential to segment the market in terms of age as well.

The existing portfolio of BBLIL's ice cream division can be geared to meet the preferences of different target segments in this manner:

Adults – Dairy Classic range, Pot Kulfi, etc.

Young adults – Cornetto, Split, etc.

Teenagers – Chocobar, Top 10, Feast, Cassatta, etc.

Children – Mini milk, Solo, Hattrik, Paddle Pop, etc.

c/ Occasion of Consumption: Considering that ice creams are consumed for myriad reasons, it would be vital to segment the ice cream market by occasion of consumption, and categorise the product offerings on the same lines as well.

Refreshment – Water ices, Sparkle, etc.

Snacks – Chocobar, Feast, Cornetto, etc.

Dessert – Dairy Classic range, Cassatta, etc.

d/ Outlets: The various outlets for end consumption of ice creams in India are Parlours, Hotels, Restaurants and Retailers. Further, retailers could either induce on-the-premises-consumption or take-home-consumption. For all these different end consumption points, the company can tailor its product portfolio.

Parlours – Dairy Classic range, parlour offerings such as Sundaes, etc.

Hotels and restaurants – Dairy Classic range, etc.

Take-home – Pot Kulfi, Dairy Classic range, etc.

On-the-premises consumption (retailers, push-carts) – Entire range.

Example : " Air-Conditioner "

The market for air-conditioners can be segmented on the nature of customers in India.

e/ Individual Consumers: This segment consists of consumers in homes, small offices, etc. In sales, the room A/C segment was about Rs. 9,365 million in 1995-96. The industry growth rate for 1998-99 was 30 per cent for this segment.

f/ Industrial Consumers: This segment consists of consumers from Industrial/Corporate sector. In sales value terms, the central A/C segment is about Rs. 3,600 million. The central A/C segment increased by 20 per cent during 1998-99.

This market can be divided into two categories:

- (1) Window A/C segment – It covers 86 per cent of industrial consumers.
- (2) Splits segment – It covers 14 per cent of industrial consumers.

6.Strategies of marketing:

The following three strategies are identified for market segmentation. They are:

1. Concentrated Marketing,
2. Differentiated Marketing, and
3. Undifferentiated Marketing.

a/ Concentrated Marketing: This strategy aims to concentrate or put all the available resources on one segment within the total market. Here, a firm wishes to match what it can do the best amidst the strong competitors. It intends to have an advantage of differentiated strategy. It is done on the basis of one marketing mix for the competitive advantage in a particular segment of market. The various forms adopted are of high fashion and design-oriented house-ware shops. In India, we can see Glass Manufacturing Companies, Johnson & Johnson for kids, Cars Companies, HMT Quartz etc. A firm targets on a major offering to a specific market segment.

b/ Differentiated Marketing: This strategy intends to cover the whole market for designing different products and marketing programs for different segments of the market. A firm makes customers to identify the brand or its name, so that additional sales and increased customer identification can be achieved. This strategy is suitable for medium and large-sized firms which are operating in many markets with a broad product line. For instance

- (1) Hindustan Lever Ltd., sells Lux, Lux Supreme, Lifebuoy, Rexona, Saral, Pears, and Lyril
- (2) Golden Tobacco Company markets its ten products in different segments like Panama, Gold Flake, New Deal, Taj, Gaylord, Taj Mahal, Square, Target, Sainik, and Diamond,
- (3) Usha Fan Company offers Usha Prima, Usha Deluxe and Usha Continental. Here, each firm targets several markets i.e., offers one product to each of several market segments.

c/ Undifferentiated Marketing: In this, a firm considers the whole market as its target. It competes successfully using the same marketing mix. This is adopted when a firm finds that there is no need for their segmentation. For example, Coca-Cola, Canada Dry, Sprint, Pepsi-Cola, Campa-Cola, Thums-Up etc. Here, all products of all organizations are targeted to all or majority of the market.