

Focusing Marketing Strategy with Segmentation

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Abstract

A manager who develops an understanding of the needs and characteristics of specific groups of target customers within the broader market may see new, breakthrough opportunities. But it's not always obvious how to identify the real needs of a target market—or the marketing mix that those customers will see as different from, and better than, what is available from a competitor. Identifying a company's market is an important but sticky issue. In general, a **market** is a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods or services—that is, ways of satisfying those needs. However, within a general market, marketing-oriented managers develop marketing mixes for *specific* target markets. Getting the firm to focus on specific target markets is vital.

Key words: market segmentation, segmenters, target, customer type, demographic characteristics, product-market, generic needs, opportunities

JEL Classification: L81, M31

Some production-oriented managers don't understand this narrowing-down process. To make the narrowing-down process easier, they just describe their markets in terms of *products* they sell. For example, producers and retailers of greeting cards might define their market as the “greeting card” market. But this production oriented approach ignores customers—and customers

make a market. To understand the narrowing-down process, it's useful to think of two basic types of markets. A **generic market** is a market with *broadly* similar needs—and sellers offering various, *often diverse*, ways of satisfying those needs. In contrast, a **product-market** is a market with *very* similar needs and sellers offering various *close substitute* ways of satisfying those needs.

A complete product-market definition includes a four-part description:

What: 1. Product type (type of good and type of service)

To meet what: 2. Customer (user) needs

For whom: 3. Customer types

Where: 4. Geographic area

Product type describes the goods and/or services that customers want. Sometimes the product type is strictly a physical good or strictly a service. But marketing managers who ignore the possibility that *both* are important can miss opportunities.

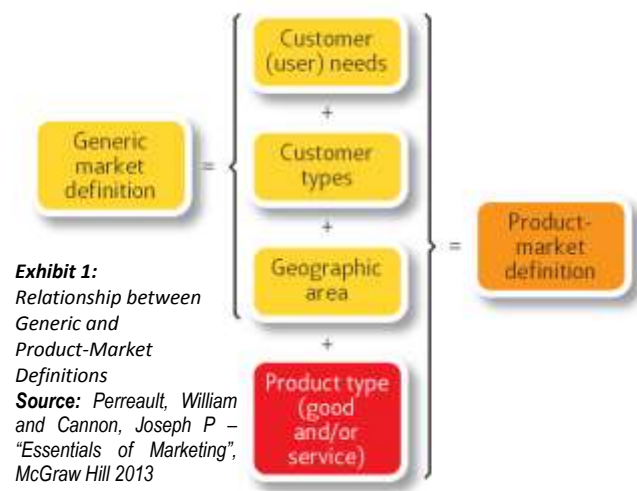
Customer (user) needs refer to the needs the product type satisfies for the customer. At a very basic level, product types usually provide functional benefits such as nourishing, protecting, warming, cooling, transporting, cleaning, holding, and saving time. Although we need to identify such “basic” needs first, in advanced economies, we usually go on to emotional needs—such as needs for fun, excitement, pleasing appearance, or status. Correctly defining the need(s) relevant to a market is crucial and requires a good understanding of customers.

Customer type refers to the final consumer or user of a product type. Here we want to choose a name that describes all present (possible) types of customers. To define customer type, marketers should identify the final consumer or user of the product type, rather than the buyer—if they are different. For instance, producers should avoid treating intermediaries as a customer type—unless intermediaries actually use the product in their own business.

The *geographic area* is where a firm competes, or plans to compete, for customers. Naming the geographic area may seem trivial, but understanding the geographic boundaries of a market can suggest new opportunities. A firm aiming only at the domestic market, for example, may want to expand to other countries. This idea of making a decision about the boundaries of a market applies not just to geographic areas served but also to decisions about customer needs and product and customer types. Thus, naming the market is not simply an exercise in assigning labels.

Rather, the manager's market definition sets the limits of the market(s) in which the firm will compete. For example, both final consumers and business customers have a variety of “fastening” needs that might be met with products ranging from screws and glues to tapes and welding. However, if a marketing manager decides that the firm should focus on business customers and not on individual consumers, then that should be explicit in the market definition. That decision limits the scope of the market and, at the same time, sharpens the focus.

A generic market description *doesn't* include any product-type terms. It consists of only three parts of the product-market definition—without the product type. This emphasizes that any product type that satisfies the customer's needs can compete in a generic market. Exhibit 1 shows the relationship between generic market and product-market definitions.



MARKET SEGMENTATION DEFINES POSSIBLE TARGET MARKETS

Market segmentation is a two-step process of (1) *naming* broad product-markets and (2) *segmenting* these broad product-markets in order to select target markets and develop suitable marketing mixes. This two-step process isn't well understood. First-time market segmentation efforts often fail because beginners start with the whole mass market and try to find one or two demographic characteristics to divide up (segment) this market. Customer behavior is usually too complex to be explained in terms of just one or two demographic characteristics. For example, not all elderly men buy the same products or brands. Other dimensions usually must be considered—starting with customer needs. The first step in effective market segmentation involves naming a broad product market of interest to the firm. Marketers must break apart—disaggregate—all possible needs into some generic markets and broad product-markets in which the firm may be able to operate profitably (Exhibit 2).

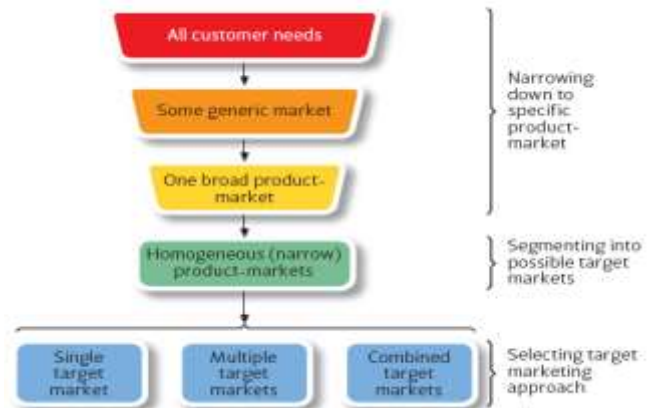


Exhibit 2: Narrowing down to target markets

Source: Perreault, William and Cannon, Joseph P – “Essentials of Marketing”, McGraw Hill 2013

No firm can satisfy everyone's needs. So the naming—disaggregating—step involves brainstorming about very different solutions to various generic needs and selecting some broad areas—broad product-markets—where the firm has some resources and experience. This means that a car manufacturer would probably ignore all the possible opportunities in food and clothing markets and focus on the generic market, “transporting people in the world,” and probably on the broad product-market, “cars, trucks, and utility vehicles for transporting people in the world.”

Marketing-oriented managers think of segmenting as an aggregating process— clustering people with similar needs into a “market segment.” A market segment is a (relatively) homogeneous group of customers who will respond to a marketing mix in a similar way. This part of the market segmentation process takes a different approach from the naming part. Here we look for similarities rather than basic differences in needs. Segmenters start with the idea that each person is one of a kind but that it may be possible to aggregate some similar people into a product-market. Segmenters see each of these one-of-a-kind people as having a unique set of dimensions. Consider a product-market in which customers' needs differ on two important segmenting dimensions: need for status and need for dependability. While each person's position is unique, many of these people are similar in terms of how much status and dependability they want. So a segmenter may aggregate them into three (an arbitrary number) relatively homogeneous submarkets—A, B, and C. Group A might be called “status-oriented” and Group C “dependability-oriented.” Members of Group B want both and might be called the “demanders.” The segmenter wants to aggregate individual customers into some workable number of relatively homogeneous target markets and then treat each target market differently.

Conclusion

It is especially important that segments be *operational*. This leads marketers to include demographic dimensions such as age, income, location, and family size. In fact, it is difficult to make some Place and Promotion decisions without such information. Avoid segmenting dimensions that have no practical operational use.

Salespeople can't give a personality test to each buyer. Similarly, advertising couldn't make much use of this information. So although moodiness might be related in some way to previous purchases, it would not be a useful dimension for segmenting. Success in international marketing requires even more attention to segmenting. There are over 192 nations with their own unique cultures! And they differ greatly in language, customs (including business ethics), beliefs, religions, race, and income distribution patterns. These additional differences can complicate the segmenting process. Even worse, critical data is often less available—and less dependable—as firms move into international markets. This is one reason why some firms insist that local operations and decisions be handled by natives.

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