

Objectives

After completing this course, you should be able to:

- identify the benefits to the marketer of segmenting the market
- identify the consumer demand category represented by a specific market
- select the most appropriate method of market segmentation in a specific case
- analyse the market segmentation strategy adopted by a specific organisation
- draft a market segmentation plan for a specific product
- identify market segments in an industrial context
- assess the attractiveness to the marketer of a specific market segment
- identify the targeting strategy being used by a specific marketer
- identify ways in which products have been differentiated and positioned in the minds of target customers



ACTIVITY 1: QUESTION

Write down what you think the following words mean:

- market
- needs
- mass production
- product range
- strategy
- market segment
- targeting.



ACTIVITY 1: ANSWER

How close are your answers to the following short definitions?

Market – The set of actual or potential buyers of a product/service.

Needs – The complex physical and psychological requirements of an individual.

Mass production – The organisation of resources to enable large-scale production of standardised products that benefit from economies of scale and therefore lower unit costs.

Product range – The supply of product items within a specific category that offers the customer a choice of specifications.

Marketing strategy – The analysis, planning, implementation and control of marketing actions.

Market segmentation – The subdivision of a total market into groups of people with similar needs.

Targeting – The evaluation and selection of specific customer groups within market segments. A specific ‘marketing mix’ will be developed for each segment targeted.

We will return to the car market later on and apply the above terminology throughout this course.

The process of market segmentation, targeting and position, is outlined below in Figure 1. Stages I and II of the process involve gathering and analysing market data to identify possible market segments. From this data a range of possible market segments is identified which then requires further detailed analysis and planning. These market segments are evaluated to determine which are worth targeting in terms of commercial viability, and potential growth. The selected segments will represent the target market that the organisation wishes to reach, and the marketer moves on to Stage III. The product’s position in the market is determined and appropriate marketing strategies developed and implemented.

Each of the three main stages and the steps within them will be described and discussed in the course of this course.

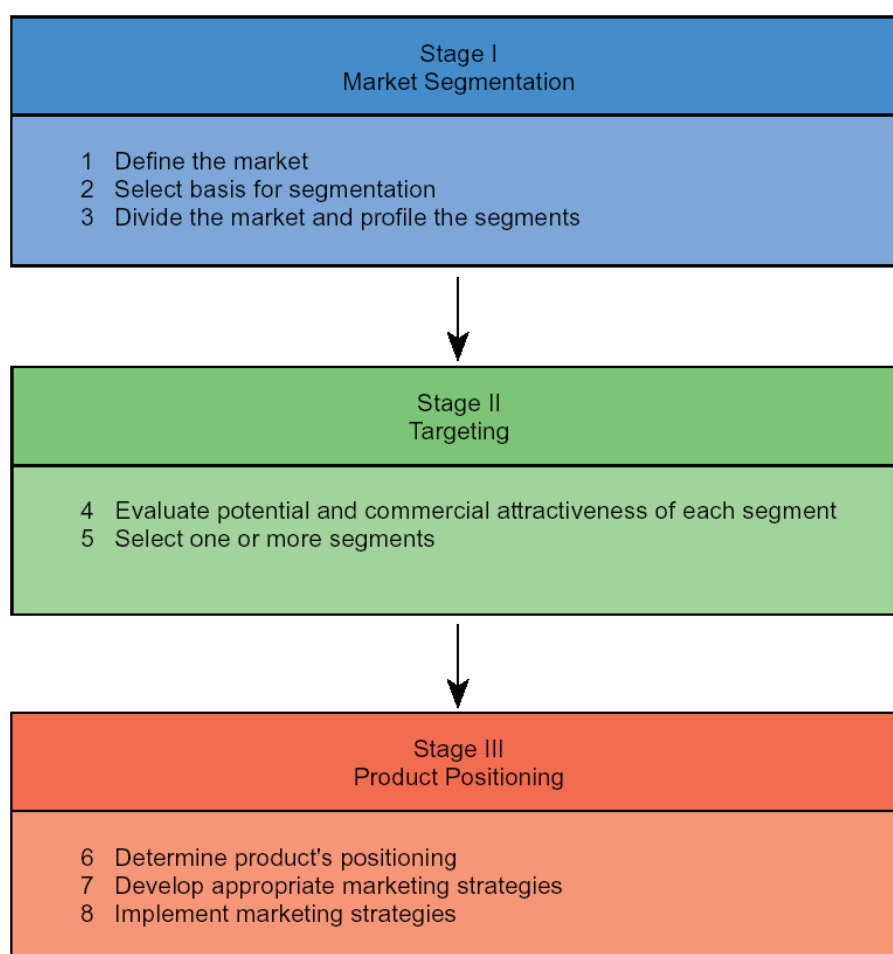


Figure 1: The three-stage model of market segmentation, targeting and positioning

SECTION 1 – Identifying Customer Needs

Introduction

The purpose of this section is to establish the basis of market segmentation – customer needs – and its importance as a concept to marketers in the development of their marketing strategies.

You will be asked to consider your own buying behaviour, to find out why you purchased a particular product. What needs were you seeking to meet? You are also asked to consider how factors such as product design and advertising might appeal to you.

The aim of this section is to help you to:

- appreciate the importance of the concept of market segmentation
- begin to understand how market segmentation works in terms of your own specific needs
- identify the different demand categories represented by the markets for specific products.

1.1 Why is Market Segmentation Necessary?

The very essence of the marketing concept itself leads us to the need to segment markets. All definitions of marketing have at their core the identification and meeting of customer needs – which in itself is the key factor that lies at the heart of market segmentation.

Whilst it is possible to manufacture products or provide services to meet individual needs this, for most organisations, is currently not profitable or possible. Such customisation is available but generally only for premium-priced, specialist products and services. Equally, the notion that a market does not need to be segmented and that one standardised product will suffice for all, is within a short time-span doomed to failure.

Q ACTIVITY 2: QUESTION

Can you identify any products for which people have an identical need?

Do the following examples fit the bill?

- Toilet paper
- Water
- Education

A**ACTIVITY 2: ANSWER**

At first glance, customers' needs for these products might appear similar. When looked at in more detail, however, the range of needs these products might satisfy is actually quite wide. All markets can be broken down into identifiable groups of **primary** and **secondary** needs. Some markets are more homogeneous than others, but even in these markets a range of needs can be identified that offer opportunities for market segmentation. For any market, consider the multitude of brands that are now available. Each brand is targeted at a specific market segment. The following analysis of the toilet paper market is based on the advertising and packaging of each brand.

Product	Primary needs	Secondary needs	Brands
Toilet paper	Cleanliness	Emotional	Andrex
		Value-for-money	Dixcel
		Environmental	Nouvelle
		Comfort	Kleenex

All toilet paper brands satisfy the primary need of cleanliness. Manufacturers therefore need to identify underlying needs that can be targeted.

Even water comes in many different forms and fulfils a range of needs:

Tap water	Primary needs	Secondary needs
	Refreshment	Health
	Cleanliness	Low cost
Bottled water (still/carbonated)	Primary needs	Secondary needs
	Health-giving properties	Social status
	Fear of tap water	
	Drink/refreshment	

While tap water and bottled water satisfy the same primary need of refreshment, many other underlying needs can be identified. For instance, a primary need for bottled water is purity of water. Bottled water is positioned to meet this need. However, brands of bottled water can also meet needs for social esteem and belonging. Manufacturers will target market segments at the secondary need level in order to differentiate their product from the competition.

Education, is also a fragmented market. Although the majority of children go to state schools (within which there is a hierarchy of desirability), the parents of a significant number elect to pay for their children's education and make their purchasing decision on the basis of a whole range of needs – some central to the concept of education, others not.

Education	Primary needs	Secondary needs
(state, private, public school, Montessori, Steiner etc)	Knowledge Job prospects Security Location	Self-esteem Professional status Social ranking

Different individuals have varying interests, tastes, aspirations, and characteristics and it is unlikely that one single product will satisfy all needs. This provides the rationale for market segmentation. Individuals with similar specific needs are likely to exhibit similar purchasing behaviour or motives that can be targeted. It is through the process of identifying different consumer needs and grouping these together that market segments are identified. From this information, marketers can develop specific products and services that closely match consumers' needs. Increasingly, marketers in both consumer and industrial markets are recognising the need to segment the markets in which they are operating. Marketers can then decide which segments to target.

Q ACTIVITY 3: QUESTION

When you next visit a supermarket, note down the different brands of bottled water. Look at their packaging and price. Consider who the brand is targeting. Is it you? If not, why not? What brand do you purchase and why?

A ACTIVITY 3: ANSWER

By analysing your own buying behaviour you can often work out what particular need of yours the product is meeting. Why do other products not appeal to you in the same way?

Products are designed to appeal to different sets of needs. The advertising that communicates the brand to you is designed to appeal to those needs. You form part of a market segment that is being specifically targeted. The product will be positioned in that market to appeal to you. Remember that the process of market segmentation targeting and positioning begins with the identification of people/organisations with similar needs.

Two major benefits accrue from the process of segmenting markets.

1. Customer needs can be met more effectively.
2. New market opportunities can be identified.

We will look in more detail at the benefits of market segmentation later. It is appropriate at this stage to look at the stages involved in developing the market segmentation process.