**MARKET SEGMENTATION**

**-**Rashmeet Kaur Gandhi

# Introduction

It is not possible for a company to serve everyone in broad markets because there are too many consumers and their needs and wants are different from one another. Hence companies target specific segments that can be served effectively. The companies focus on consumers whose needs can be satisfied by the company, rather than focusing on all the consumers in the market.

A good example of use of market segmentation to satisfy different customers’ needs can be seen by observing leading car manufacturer Maruti Suzuki. Maruti Suzuki created a separate chain of dealerships, for selling its high end cars, called Nexa. In order to attract high income cutsomers, the brand wanted to provide them an experience of exclusivity, which was the primary reason behind the inception of Nexa. Therefore, by separateng its high income and low income costomers, Maruti Suzuki is able to satisfy the demands of both type of its customers.

Segmentation of market is the need of 21st century. The consumers are more aware today than ever before. Mass marketing targeting all the consumers isn’t very effective in modern times. If companies fail to cater the needs of its different consumers, it will eventually suffer.

When Coca-cola was initially launched, it was only available in one flavour in a 6.5-ounce bottle. There was no variety in the offering and the company used the technique of mass marketing. It wanted to satisfy the needs of majority of the consumers. But with the passage of time, Coca-cola’s offerings kept evolving. It carefully segmented its market targeting different niches . Today, Coke offers more than 3200 drinks globally and is amongst the most valuable companies in the world.

## Levels of Market Segmentation

Regardless of the offering, firms can segmentation at one of the following four levels:

### Segment Marketing

A market segment is a cluster of large groups with similar needs and wants. These groups generally have same purchasing power, buying habits and geographical locations. However, the needs and wants of people in a segment are similar, not identical; therefore, it is important for companies to be flexible with their offerings.

Segmentation is very helpful as it helps companies to identify their target audience and enables them to create products that cater the needs of that particular audience.They can also promote the products with specific segment in mind and price is according to the purchasing power of the segment. This increases efficiency and is helpful for the sales of the company.

Niche Marketing

Marketers can seek to satisfy the needs of a smaller, narrowly defined group called a niche. Niches are subsegments within a segment. The companies can offer cutsomized products in order to serve that niche and the consumers are willing to pay a premium price for such products. This enables companies to increase their profit margins. Since niches are generally small, there is not much competition which acts in the company’s favour.

Local Marketing

This type of marketing seeks to fulfil the desires of local customers, within the same geographical region. The offerings of the company vary according to different localities. Citi Bank, for instance, offers different banking services in its different branches, according to local requirements. Local marketing leads to increased costs for the company but in turn increase consumer satisfaction which compensates for the cost.

### Individual Marketing

When companies target each consumer individually and provide a customized product to the consumer’s desires, it is called Individual marketing. Companies use such segmentation in case of high margin products. For example, Rolls Royce offers a huge choice of customisation for its every customer, ranging from dashboard leather to seat colour.

## Segmentation of consumer markets

Companies segment different consumers with respect to different variables in order to form homogenous group of people with similar characteristics. Given below are different types of segmentation

### Geographic Segmentation

Consumers are segmented on the basis of their geography, i.e., the place where they live. They can be divided according to different units like continents, nations, states or cities. This helps the companies to target the desired companies and fulfil their needs in a customized manner. Take example of McDonalds. It customizes it’s product line up according to the country it operates in. In India, McDonalds doesn’t sell beef and pork in an effort to not hurt the sentiments of its hindu and muslim consumers. Starbucks too customises its drinks according to the markets it serves in. In China, it mainly serves tea instead of coffee because chinese people prefer tea over coffee.

### Demographic Segmentation

It is one of the most popular and effective segmentation method. The entire consumer market is divided into different homogenous groups on the basis of different variables. People are divided into homogenous clusters on the basis of age, gender, race, nationality etc. Compared to other factors, demographic variables are easy to measure.

## Following demographic factors are used to segment consumer markets:

### Age

Age of the consumer is a very important parameter for segmentation. Companies produce different products to appeal people of different age groups. Due to age difference and generation gap, the preferences and choices of old people and young people differ significantly. Companies can capitalise on this by catering the needs of different age groups. Car companies offer segment their consumers according to this method and produce fast-flashy cars to appeal its young consumer base while comfortable and efficient cars to appeal the older consumer base. Nestle produces baby food for infants as well as nutritional food for toddlers and growing children, addressing the needs of all the age groups.

Gender

Gender has been the basis of segmentation for centuries. Manufacturers know there is a significant difference in the choices of men and women and they optimise their products to harvest the profits by segmented offerings.From clothing to hair styling, there are separate products for men and women. For example head and shoulders produces shampoos for both men and women. It has cleverly segmented its shampoo range offering sweet fragrant products for women while deep cleansing products for men. Victoria’s secret only targets female and makes high end underwear for them.

### Income

There exists a huge income gap between different consumers and companies use it to segment their products. If a company wants high margin, it generally targets high-income people and sells them premium products at a premium price. Companies that sell products at low prices target mass low income consumers and reduces cost through economies of scale. Some companies cater the needs of both high income and low income. Maruti Suzuki makes small hatchbacks for low income consumers while premium SUVs for high income consumers.

### Social Class

People who grow up in high class posh societies tend to spend more for quality products. Therefore by segmenting consumers according to their social class companies can profit significantly.

### Race

Race of a person is a determining factor as well. The colour of a person’s skin allows Cosmetic companies to produce different products catering to each consumer’s need. For example Jordan shoes are more famous among black people whereas white people tend to prefer Starbucks.

### Religion

It is important for companies to segment their consumers according to religion. For example Hindus abstain from beef while muslims don’t eat pork. McDonalds realised it and therefore banned beef and pork from its Indian menu. KFC also sells only halal meat in order to please their muslim consumers.

### Psychographic Segmentation

Based on the psychology and lifestyle of the consumers, they are divided into different segments. It is done to offer more customisation to people according to their behavior.

### Lifestyle

Different people have different lifestyle. Food companies segment their consumers this way to target different health conscious consumers. They offer low carbohydrate high protein alternatives to cater the needs of health conscious group. For vegan consumers, companies provide the alternative of soy milk.

### Personality

Different people have different personalities. Some are modern hipsters while some are calm and classy. Different apparel brands can appeal to consumers based on their personality catering the needs and wants of each and every consumer. MacBook also appeals to the cool and hip people while windows pc appeals to professional people.

### Values

Core values are the beliefs that underlie consumer attitudes. Core values determine, at a basic level, people’s choices and desires over the long run. Marketers who use this segmentation variable generally think that by appealing to people’s inner selves, it is possible to influence their purchase behavior. Although values often differ from different cultures Roper Reports has identified six values segments.

### Behavioral Segmentation

In behavioral segmentation, people are divided into groups on the basis of knowledge, attitude or response to a product. Many marketers believe that such variables are the best starting points for constructing segments.

### Occasions

Buyers can be distinguished according to occasions when they purchase a product, or use a product. For example, air travel is triggered by occasions related to Holidays so an airline can specialize in such occasions. Thus, charter airlines serve groups of people who fly during vacation. Occasion segmentation can help firms expand product usage. A company can also consider critical events to see whether they require or are accompanied by certain needs. This kind of analysis has led to service providers such as marriage, employment, and divorce counselors.

Benefits - Consumers can be classified according to benefits that are seeded by them. A study of travelers globally uncovered three benefit segments: those who travel to be with family, those who travel for education, and those who love the fun aspects of travel.

### User status

Consumers can easily be segmented into non-users, exponential users, and regular users. The brand’s market position influences its focus as well. Market leaders tend to focus on attracting potential users, whereas smaller firms tend to to lure users away from the leader.

### Usage rate

Consumers can easily be segmented into light, medium, and heavy product users. Heavy users are generallya small percentage of the total market but they do account for a high percentage of net consumption.Companies usually prefer to attract one heavy user rather than many light users, and they vary their promotional efforts accordingly. Repp’s Big & Tall Stores, a company which operates 200 stores and a catalog business, has successfully identified 12 segments by analyzing customer response rates, average sales, and other factors. Some segments do get up to eight mailings per year, while some get only one or two mailings. The chain tries to direct low-volume catalog shoppers into its nearby stores, and it offers infrequent customers an incentive such as 15 percent off to buy during a particular period. Repp usually gets a 6-7 percent response to these segmented mailings, far more than the typical 0.5 response rate for non-segmented mailings.

## Loyalty status

Buyers can easily be distributed into four groups according to brand loyalty

(1) Hardcore loyals - people who always buy only one brand’s products.

(2) Split loyals - people who are loyal to 3 or 4 brands.

(3) Shifting loyals - people who tend to shift from one brand to another.

(4) Switchers - people who don’t show any loyalty to any brand whatsoever.

Each market consists of these four types of buyers; thus, a brand-loyal market has a high amount of hard-core loyals. Brands that sell in such a market have a really hard time gaining more market share, and new competitors have a really hard time breaking in. But sometimes what appears to be brand loyalty may actually reflect habit, indifference, a low price, a high switching cost, or the non availability of other product brands. That’s why companies must carefully interpret what is behind observed purchasing patterns.

### Buyer Readiness stage

People tend to be in certain stages of readiness to buy products. Some people are totally unaware about the product, some are somewhat aware, some are informed, some are interested, while some intend to buy. This can make a really big difference in design of the marketing strategy and planning.

### Attitude

In a market generally five attitude groups can be found: enthusiastic, positive, indifferent, negative, and hostile. So, for example, workers in the political campaigns use the voters’ attitude to decide how much time to spend with that particular voter. They might thank enthusiastic voters and remind them to vote, reinforce those who are positively inclined, try to win the votes of indifferent voters, and spend no time and effort trying to change the attitudes of negative and hostile voters.

Today, companies are increasingly combining several variables in an effort to identify smaller, better defined target groups. Therefore, a bank may try to identify a group of wealthy retired adults, and within that group may try to distinguish several segments depending on the current income, assets, savings etc.

One of the novel and most promising developments in segmentation is geo- clustering, which gives richer descriptions of consumers than the traditional demographics. Geoclustering can indeed help a company answer such questions as: Which clusters contain the most valuable customers? How deeply have we actually gone into these segments? Which markets are providing the best opportunities for growth?

For example: Claritas Inc. has developed a geoclustering approach called PRIZM (Potential Rating Index by Zip Markets). Claritas has identified and classified500 million American residential neighborhoods into 55 groups, also called the PRIZM Clusters. These groupings do take into consideration overall 39 factors in five broad categories:

(1) Education and affluence

(2) Family life cycle

(3) Urbanization,

(4) Race and ethnicity

(5) Mobility

Each cluster has been given an elaborate title. Within every cluster, members lead similar lives, use similar cars, and generally have similar kind of jobs.”The American Dreams” cluster, for example, is very upscale and ethnic—a big-city mosaic of people likely to buy expensive imported cars, Mueslix cereal, tennis weekends, and designer jeans. Whereas, Rural Industries contains young families in heartland offices and factories whose lifestyle is denoted by trucks, True Story magazine, Shake n’ Bake, and fishing trips.

Geoclustering can prove to be a very valuable segmentation tool because it helps to capture the constantly increasing diversity of the American population. It can help even smaller firms identify small segments that are economically feasible.

## Targeting Multiple Segments and Super segments

Sometimes companies start out by marketing to one segment, and later expand to other segments. For example, Paging Network Inc is an emerging developer of paging systems, and was the first company to offer the facility of voice mail on pagers. In order to compete with other companies, it usually sets its prices about 25 percent below the price of its rival. In the initial stages, Page Net used the technique of geographic segmentation to identify and target attractive markets in Washington and Utah where local competitors were incredibly vulnerable to its aggressive pricing.

Later the company developed a profile of users of paging services so it could specifically target salespeople, messengers, and service people. PageNet also did use the lifestyle segmentation to segregate and target additional consumer groups, such as parents who tend to leave their children with a baby sitter. Finally, PageNet started distribution of its pagers through Kmart, WalMart, and Home Depot and offered attractive discounts.

While targeting multiple segments, a company should carefully examine segment inter- relationships on the cost and performance. A firm that is carrying fixed costs, such as a sales force or store outlets, can easily add products share some of these costs. Witty companies know very well that economies of scope can be just as important as economies of scale. Companies should also look beyond isolated segments to target a super segment, which is a set of segments that share some similarity that can be exploited. Take example of orchestras; they target people with broad cultural interests, rather than targeting only those who regularly attend concerts.

A company’s invasion plans can still be hurt when it faces the blocked markets. This problem requires mega marketing, which is the strategic coordination of economic, psychological, and public-relations skills to earn the cooperation of multiple parties in order to enter or operate in a market. Pepsi has made the use of mega marketing to enter India after Coke left the Indian market. It worked with a local business group to gain government approval required for its entry over the objections of the already present domestic soft-drink companies and the legislators. Pepsi has also offered to help India export agricultural products to more than cover the cost of importing soft-drink concentrate and eventually has promised economic development for some rural areas. Thus Pepsi was able to gain the support of people in the Indian Market.

# Conclusion

Brands and firms are more effective when they target their specific markets. The Markets are generally targeted at four basic levels levels: segments, niches, local areas, and individuals. Market segments refer to the large groups within a market, with similar wants, purchasing power, location, or buying attitudes while a niche is a more narrowly defined group.

A lot of companies localize their marketing programs for specific trading areas, neighborhoods, and even individual stores. The new evolution in segmentation is individual marketing and mass customization, a trend that is rising as more customers take the initiative in designing and buying products. Additionally, companies must analyze the patterns of segmentation in a market to get a sense of their positioning alternatives and that of the competitors.

Markets are usually segmented by surveying, analyzing, and profiling. The most important segmentation variables for consumer markets are geographic, demographic, psychographic, and behavioral. Business marketers can also use all of these variables along with operating variables, purchasing approaches, situational factors, and personal characteristics. To conclude, market segments must be measurable, substantial, accessible, differentiable, and actionable.

After a company has identified its market-segment opportunities, it should evaluate the various segments and decide how many and which ones to target. In the evaluation of segments, the managers look at the segment’s attractiveness indicators and the company’s objectives and resources. While deciding which segments to target, the company can focus on a single segment, selected segments, a specific product, a specific market, or the full market. It is very vital for companies to choose target markets in a socially responsible manner and ensure that targeting serves the interests of the market being targeted as well as the company.