MKTG
Principles Of Marketing
Twelfth Edition

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MKTG¹²
PRINCIPLES OF MARKETING

Chapter 8
Segmenting and
Targeting Markets

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Learning Outcomes (1 of 2)

8-1 Describe the characteristics of markets and market segments

8-2 Explain the importance of market segmentation

8-3 Discuss the criteria for successful market segmentation

8-4 Describe the bases commonly used to segment consumer markets

8-5 Describe the bases for segmenting business markets

8-6 List the steps involved in segmenting markets

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Learning Outcomes (2 of 2)

8-7 Discuss alternative strategies for selecting target markets

8-8 Explain how CRM can be used as a targeting tool

8-9 Explain how and why firms implement positioning strategies and how product differentiation plays a role

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Learning Objective 1: Markets and Market Segments

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Market

- **Market**
  - *People or organizations with needs or wants and the ability and willingness to buy*
- **Market segment**
  - *Subgroup of people or organizations sharing one or more characteristics that cause them to have similar product needs*
- **Market segmentation**
  - *Process of dividing a market into meaningful, relatively similar, and identifiable segments or groups*

Learning Objective 2: The Importance of Market Segmentation

Importance of Market Segmentation

- Plays a key role in the marketing strategy of successful organizations
- Powerful marketing tool
- Helps marketers define customer needs and wants precisely
- Helps decision makers define objectives and allocate resources more accurately

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Learning Objective 3: Criteria for Successful Segmentation

Successful Segmentation

- Produces market segments that meet:
  - Substantiality: Segment must be large enough to warrant developing and maintaining a special marketing mix.
  - Identifiability and measurability: Segment must be identifiable and its size measurable
  - Accessibility: Marketing mix must be reachable to members of targeted segments.
  - Responsiveness: Segment need not be treated separately unless it respond differently to a marketing mix

Learning Objective 4: Bases for Segmenting Consumer Markets

Bases for Segmentation

- Geography
- Demography
- Psychographics
- Benefits sought
- Usage rate

Geographic Segmentation

- Segments markets by:
  - Region of a country or the world
  - Market size
  - Market density
    - Number of people within a unit of land
  - Climate
    - Impacts purchasing behavior

Demographic Segmentation

- Age
- Gender
- Income
- Ethnic background
- Family life cycle

Age Segmentation

- Segments markets by age into the following cohorts:
  - Tweens
  - Teens
  - Millennials
  - Generation X
  - War generation
  - Great Depression generation

Gender and Income Segmentation

- Gender segmentation
  - Uses different strategies for men and women
  - Many marketers are going after the less-traditional market
- Income segmentation
  - Income level influences consumers' wants and determines their buying power
    - Retailers can appeal to low-income or high-income categories, or both
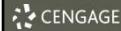
Ethnic Segmentation

- Some companies make products geared toward specific ethnic groups
  - To meet the needs and wants of expanding populations
- Largest ethnic groups in the United States:
 - Hispanic Americans
  - African Americans
  - Asian Americans
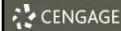
Family Life Cycle Segmentation

- Consumption patterns among people of the same age and gender differ because they are in different stages of the family life cycle.
- Series of stages are determined by a combination of age, marital status, and the presence or absence of children
- The horizontal flow shows the traditional FLC.

Exhibit 8.1 Family Life Cycle
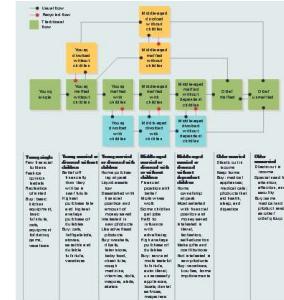
Bases for Psychographic Segmentation

- Personality
- Motives
- Lifestyles
- Geodemographics

Psychographic Segmentation

- Psychographic segmentation is market segmentation on the basis of the following psychographic segmentation variables:
  - Personality : It reflects a person's traits, attitudes, and habit.
  - Motives: Marketers of baby products and life insurance appeal to consumers' emotional motives—namely, to care for their loved ones.
  - Lifestyles: Lifestyle segmentation divides people into groups according to the way they spend their time, the importance of the things around them, their beliefs, and socioeconomic characteristics such as income and education.
  - Geodemographics: Geodemographic segmentation clusters potential customers into neighborhood lifestyle categories.

Benefit and Usage-Rate Segmentation

- **Benefit segmentation**
  - *Grouping customers into market segments according to the benefits they seek from the product*
- **Usage-rate segmentation**
  - *Divides a market by the amount of product bought or consumed*
- **80/20 principle**
  - *Principle holding that 20 percent of all customers generate 80 percent of the demand*

Learning Objective 5: Bases for Segmenting Business Markets

Segmentation Variables

- The business market consists of four broad segments: producers, resellers, government, and institutions.
- Further market segmentation offers just as many benefits to business marketers as it does to consumer product marketers.
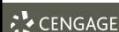
Company Characteristics

- Geographic location
- Type of company
- Company size
- Product use
- Volume of purchase (heavy, moderate, light) is a commonly used basis for business segmentation

Buying Processes

- **Satisficers**
  - *Business customers who place an order with the first familiar supplier to satisfy product and delivery requirements*
- **Optimizers**
  - *Business customers who consider numerous suppliers, both familiar and unfamiliar, solicit bids, and study all proposals carefully before selecting one*

Learning Objective 6: Steps in Segmenting a Market

Steps in Segmenting a Market

- Selecting a market or product category for study
- Choosing a basis or bases for segmentation
- Selecting segmentation descriptors
- Profiling and analyzing segments
- Selecting markets
- Designing, implementing, and maintaining appropriate marketing mixes

Learning Objective 7: Strategies for Selecting Target Markets

Target Market

- Group of people or organizations for which an organization designs, implements, and maintains a marketing mix
  - To meet the needs of that group, resulting in mutually satisfying exchanges
- Strategies for selection
  - Undifferentiated targeting
  - Concentrated targeting
  - Multi segment targeting

Target Marketing Strategies

- **Undifferentiated targeting strategy**
  - *Views the market as one big market with no individual segments and thus uses a single marketing mix*
- **Concentrated targeting strategy**
  - *Selects one segment of a market for targeting marketing efforts*
- **Multi segment targeting strategy**
  - *Chooses two or more well-defined market segments and develops a distinct marketing mix for each*

Exhibit 8.2 Advantages and Disadvantages of Target Marketing Strategies

Targeting Strategy	Advantages	Disadvantages
Undifferentiated Targeting	• Potential savings on production/ marketing costs	• Unimaginative product offerings
		• Company more susceptible to competition
Concentrated Targeting	• Concentration of resources	• Segments too small or changing
	• Can better meet the needs of a narrowly defined segment	• Large competitors may more effectively market to niche segment
	• Allows some small firms to better compete with larger firms	
	• Strong positioning	
Multisegment Targeting	• Greater financial success	• High costs
	• Economies of scale in producing/ marketing	• Cannibalization

Learning Objective 8: CRM as a Targeting Tool

CRM

- Companies that successfully implement CRM tend to customize the goods and services offered to their customers
  - Based on data generated through interactions between carefully defined groups of customers and the company
- Can allow marketers to target customers with extremely relevant offerings

Trends Leading to the Continuing Growth of CRM (1 of 3)

- Personalization
- Time savings
- Loyalty
- Technology

Trends Leading to the Continuing Growth of CRM (2 of 3)

- **Personalization:** One-size-fits-all marketing is no longer relevant.
- **Time savings:** Direct and personal marketing efforts will continue to grow to meet the needs of consumers who no longer have the time to spend shopping and making purchase decisions.

Trends Leading to the Continuing Growth of CRM (3 of 3)

- **Loyalty:** Consumers will be loyal only to those companies and brands that have earned their loyalty and reinforced it at every purchase occasion.
- **Technology:** Mass-media approaches will decline in importance as advances in market research and database technology allow marketers to collect detailed information on their customers.

Learning Objective 9: Positioning

Positioning, Perceptual Mapping, and Repositioning

- **Positioning**
  - *Influences potential customers' overall perception of a brand, product line, or organization in general*
- **Perceptual mapping**
  - *Means of displaying or graphing the location of products, brands, or groups of products in customers' minds*
- **Repositioning**
  - *Changing consumers' perceptions of a brand in relation to competing brands*

Positioning Bases (1 of 3)

- Attribute
- Price and quality
- Use or application
- Product user
- Product class
- Competitor
- Emotion

Positioning Bases (2 of 3)

- **Attribute:** A product is associated with an attribute, product feature, or customer benefit.
- **Price and quality:** This positioning base may stress high price as a signal of quality or emphasize low price as an indication of value.
- **Use or application:** Stressing uses or applications can be an effective means of positioning a product with buyers.
- **Product user:** This positioning base focuses on a personality or type of user.
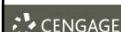
Positioning Bases (3 of 3)

- **Product class:** The objective here is to position the product as being associated with a particular category of products.
- **Competitor:** Positioning against competitors is part of any positioning strategy.
- **Emotion:** Positioning using emotion focuses on how the product makes customers feel.

Exhibit 8.3 Perceptual Map and Positioning Strategy for Saks Department Stores
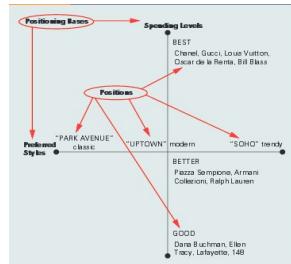
Key Terms (1 of 3)

- Market
- Market segment
- Market segmentation
- Segmentation bases (variables)
- Geographic segmentation
- Demographic segmentation
- Family life cycle (FLC)
- Psychographic segmentation
- Geodemographic segmentation

Key Terms (2 of 3)

- Benefit segmentation
- Usage-rate segmentation
- 80/20 principle
- Satisficers
- Optimizers
- Target market
- Undifferentiated targeting strategy
- Concentrated targeting strategy
- Niche

Key Terms (3 of 3)

- Multi segment targeting strategy
- Cannibalization
- Positioning
- Position
- Product differentiation
- Perceptual mapping
- Repositioning

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