



Segmenting and Targeting Markets

MKTG 8

Chapter 8

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2014-2015

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Learning Outcomes

- LO¹** Describe the characteristics of markets and market segments
- LO²** Explain the importance of market segmentation
- LO³** Discuss the criteria for successful market segmentation
- LO⁴** Describe the bases commonly used to segment consumer markets
- LO⁵** Describe the bases for segmenting business markets

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Learning Outcomes

- LO⁶** List the steps involved in segmenting markets
- LO⁷** Discuss alternative strategies for selecting target markets
- LO⁸** Explain how CRM can be used as a targeting tool
- LO⁹** Explain how and why firms implement positioning strategies and how product differentiation plays a role

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Market Segmentation

Describe the characteristics of markets and market segments



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Characteristics of a Market

All markets share several characteristics:

1. They are composed of people or organizations.
2. These people or organizations have wants and needs that can be satisfied by particular product categories.
3. They have the ability to buy the products they seek.
4. They are willing to exchange their resources, usually money or credit, for desired products.

A group of people that lacks any one of these characteristics is NOT a market.

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Markets are segmented for 3 reasons:

1. Segmentation enables the identification of groups of customers with similar needs, and the analysis of the buying behavior of these groups.
2. Segmentation provides information for the specific matching of the design of marketing mixes with the characteristics of the segment.
3. Segmentation helps marketers satisfy customers wants and needs while meeting the organization's objectives.

Simply put, the overall purpose of market segmentation is to identify marketing opportunities (p150).

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Market Segmentation

Market	People or organizations with needs or wants and the ability and willingness to buy.
Market Segment	A subgroup of people or organizations sharing one or more characteristics that cause them to have similar product needs.
Market Segmentation	The process of dividing a market into meaningful, relatively similar, identifiable segments or groups.

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The Concept of Market Segmentation



No market segmentation Fully segmented market



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The Importance of Market Segmentation

Explain the importance of market segmentation

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The Importance of Market Segmentation

- ◆ Markets have a variety of product needs and preferences.
- ◆ Marketers can better define customer needs.
- ◆ Decision makers can define objectives and allocate resources more accurately.
- ◆ Until the 1960's, market segmentation was not used extensively.

LO² 10

Criteria for Successful Segmentation

Discuss criteria for successful market segmentation

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Criteria for Segmentation

Substantiality	Segment must be large enough to warrant a special marketing mix.
Identifiability and Measurability	Segments must be identifiable and their size measurable.
Accessibility	Members of targeted segments must be reachable with marketing mix.
Responsiveness	Unless segment responds to a marketing mix differently, no separate treatment is needed.

A segmentation scheme must produce segments that meet the four basic criteria as defined above.

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Bases for Segmenting Consumer Markets

Describe the bases commonly used to segment consumer markets

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Bases for Segmentation

- Geography
- Demographics
- Psychographics
- Benefits Sought
- Usage Rate

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Geographic Segmentation

- ◆ Region of the country or world
- ◆ Market size
- ◆ Market density
 - ◆ The number of people within a unit of land
- ◆ Climate

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Benefits of Regional Segmentation

- ◆ New ways to generate sales in sluggish and competitive markets
- ◆ Scanner data allow assessment of best selling brands in region
- ◆ Regional brands appeal to local preferences
- ◆ Quicker reaction to competition

For the reasons above, consumer goods companies use a regional approach to marketing.

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Demographic Segmentation

Age

Gender

Income

Ethnic background

Family life cycle

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Age Segmentation

Marketers can segment markets by age using cohorts:

- Tweens (9 to 12 years old)
- Teens
- Generation Y (1979-1994 30% of pop)
 - Distrust advertising; also called Millennials
- Generation X (1965-1978 16% of pop.)
 - Disloyal to brands; skeptical of big business

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Age Segmentation

Marketers can segment markets by age using cohorts:

- Baby Boomers (1946-1964 24.7% of pop.)
 - About 33% or 1/3 of the population.
 - Spends more annually than any other generation.
- The War Generation and The Great Depression Generation (age 70+)
 - Often called the “silent generation” because they quietly persevered through great hardships.

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Gender Segmentation

- Women make 85 percent of consumers goods purchases annually.
- Marketers of products such as clothing and cosmetics still segment markets by gender, and many of these marketers are going after the less-traditional male market.
 - Example: Weight Watchers for men.

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Gender Segmentation

Nothing helps you
get back in the game
like NutrisystemTM

Tackle your first 5 lbs. fast** with Fast 5TM, and step into
the winning weight loss zone when you order Nutrisystem.



*Expect to lose 5 lbs. in your first week for an average of 1-2 lbs. per week on the program.
**Compensated testimonial. Weight loss on Fast 5 program. Did not use Fast 5.

Former NFL Quarterback Dan Marino for Nutrisystem.

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Income Segmentation

- Income level influences consumers' wants and determines their buying power.
- Retailers can appeal to:
 - Low-income
 - High-income
 - Both

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Ethnic Segmentation

The three largest ethnic groups in the United States are:

- Hispanic Americans
- African Americans
- Asian Americans

To meet the needs and wants of expanding ethnic populations, some companies make products geared toward specific ethnic groups.

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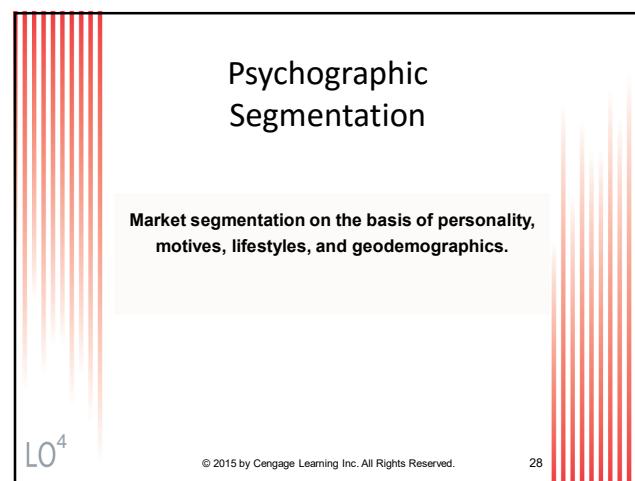
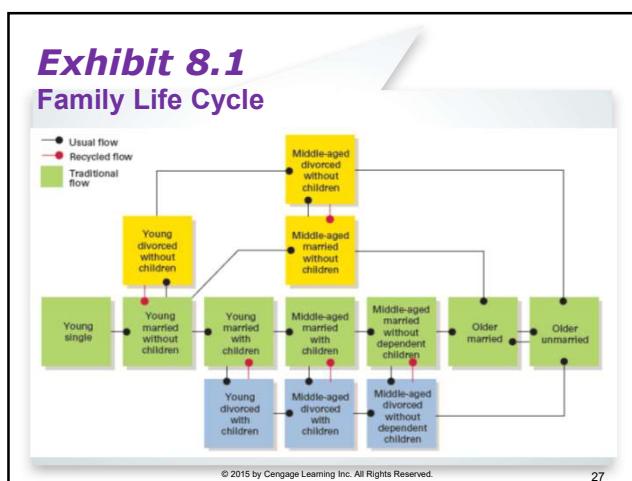
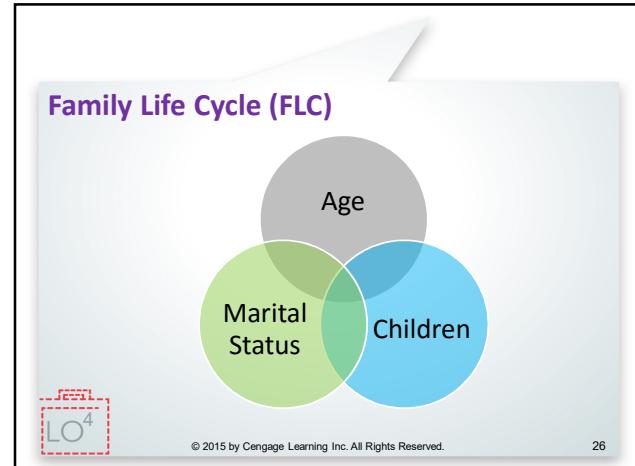
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The Family Life Cycle (FLC)

1. Consumption patterns among people of the same age and gender differ because they are in different stages of the family life cycle stage.
2. The family life cycle (FLC) is a series of stages determined by a combination of age, marital status, and the presence or absence of children.
 - Married couples make up less than 50% of all households.
 - Unmarried Americans make up 42% of the workforce.
 - Stage of life cycle can determine how receptive a consumer is to marketing efforts

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Bases for Psychographic Segmentation

Personality

Motives

Lifestyles

Geodemographics

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Personality and Motive Segmentation

Personality

Reflects a person's traits, attitudes, and habits.

- Clothing is the ultimate personality descriptor
- Products gives others an idea of "who you are"

Motives

Marketers might appeal to emotional, rational, or status motives, among others.

- e.g. emotional motives – to care for a child or take care of your family. OR e.g. appeal to status related motives (buy a Ferrari)

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Lifestyle Segmentation

- ◆ How time is spent
- ◆ Importance of things around them
- ◆ Beliefs
- ◆ Socioeconomic characteristics

Lifestyle segmentation divides people into groups according to how time is spent, the importance of things around them, beliefs, and socioeconomic characteristics such as income and education.

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Geodemographic Segmentation

Segmenting potential customers into neighborhood lifestyle categories.

Combines geographic, demographic, and lifestyle segmentation.

Geodemographic segmentation helps marketers develop marketing programs tailored to prospective buyers who live in small geographic regions, such as neighborhoods, or who have very specific lifestyle and demographic characteristics.

- College students centered around a campus might be a good example.

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Benefit Segmentation

The process of grouping customers into market segments according to the benefits they seek from the product.

(looks specifically at needs and wants instead of some other characteristic)

Example: The six different snack food segments:

1. Nutritional snackers
2. Weight watchers
3. Guilty snackers
4. Party snackers
5. Indiscriminate snackers
6. Economical snackers

Customer profiles can be developed by examining demographic information associated with people seeking certain benefits.

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Usage-Rate Segmentation

Dividing a market by the amount of product bought or consumed.

Usage-Rate Segmentation	80/20 Principle
A principle holding that 20 percent of all customers generate 80 percent of the demand.	

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Bases for Segmenting Business Markets

Describe the bases for segmenting business markets

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Bases for Segmenting Business Markets

Producers
Resellers
Government
Institutions

Company Characteristics
Buying Processes

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Company Characteristics

Important segmentation variables:

- ◆ Geographic location
- ◆ Type of company
- ◆ Company size
- ◆ Product use

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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.

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Buyer Characteristics

- Demographic characteristics
- Decision style
- Tolerance for risk
- Confidence level
- Job responsibilities

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Steps in Segmenting a Market

List the steps involved in segmenting markets

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Steps in Segmenting Markets

- 1 Select a market for study (current, related, or totally new)
- 2 Choose bases for segmentation (no standard scientific process for this, but must meet criteria for a segment)
- 3 Select descriptors (e.g. which demographic characteristics?)
- 4 Profile and analyze segments (long term sales, profit potential, usage, etc.)
- 5 Select markets (may be decision; determines marketing mix)
- 6 Design, implement, and maintain marketing mix

Markets are dynamic, so it is important that companies proactively monitor their segmentation strategies over time.

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Strategies for Selecting Target Markets

Discuss alternative strategies for selecting target markets

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Target Market

A group of people or organizations for which an organization designs, implements, and maintains a marketing mix intended to meet the needs of that group, resulting in mutually satisfying exchanges.

- Market segmentation is the first step in determining whom to approach about buying a product. The next task is to choose one or more target markets.

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Strategies for Selecting Target Markets

Undifferentiated Strategy

Concentrated Strategy

Multisegment Strategy

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Undifferentiated Targeting Strategy

A marketing approach that views the market as one big market with no individual segments and thus uses a single marketing mix.

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Undifferentiated Targeting Strategy

Advantage:

- Potential savings on production and marketing costs

Disadvantages:

- Unimaginative product offerings
- Company more susceptible to competition

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Concentrated Targeting Strategy

Concentrated Targeting Strategy
A strategy used to select one segment of a market for targeting marketing efforts.

Niche
One segment of a market.

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Concentrated Targeting Strategy

Advantage:

- Concentration of resources
- Meets narrowly defined segment
- Small firms can compete
- Strong positioning

Disadvantages:

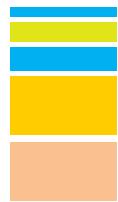
- Segments too small, or changing
- Large competitors may market to niche segment

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Multisegment Targeting Strategy

A strategy that chooses two or more well-defined market segments and develops a distinct marketing mix for each.



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Multisegment Targeting Strategy

Advantage:

- ◆ Greater financial success
- ◆ Economies of scale

Disadvantages:

- ◆ Higher costs
- ◆ Cannibalization

Multisegment Strategy

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Costs of Multisegment Targeting Strategy

- ◆ Product design costs
- ◆ Production costs
- ◆ Promotion costs
- ◆ Inventory costs
- ◆ Marketing research costs
- ◆ Management costs
- ◆ Cannibalization

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CRM as a Targeting Tool

Explain how CRM can be used as a targeting tool

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CRM (Customer Relationship Management)

- Recall from Chapter 1 that CRM entails tracking interactions with customers to optimize customer satisfaction and long-term company profits.
- 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.

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CRM Trends (Customer Relationship Management)

- One-size-fits all marketing no longer relevant
- Direct and personal marketing efforts will grow to meet needs of busy consumers.
- Consumers will be loyal to companies that have earned—and reinforced—their loyalty.
- Mass-media approaches will decline as technology allows better customer tracking.

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Positioning

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

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Positioning

Developing a specific marketing mix to influence potential customers' overall perception or a brand, product line, or organization in general.

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Positioning of Procter & Gamble Detergents

Brand	Positioning
Tide	Tough, powerful cleaning
Cheer	Tough cleaning, color protection
Bold	Detergent plus fabric softener
Gain	Sunshine scent and odor-removing formula
Era	Stain treatment and stain removal
Dash	Value brand
Solo	Detergent and fabric softener in liquid form
Dreft	Outstanding cleaning for baby clothes, safe
Ivory	Fabric and skin safety on baby clothes
Ariel	Tough cleaner, aimed at Hispanic market

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Effective Positioning

1. Assess the positions occupied by competing products
2. Determine the dimensions underlying these positions
3. Choose a market position where marketing efforts will have the greatest impact

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Product Differentiation

A positioning strategy that some firms use to distinguish their products from those of competitors.

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Perceptual Mapping

A means of displaying or graphing, in two or more dimensions, the location of products, brands, or groups of products in customers' minds.

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Positioning Bases

Attribute

Price and Quality

Use or Application

Product User

Product Class

Competitor

Emotion

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Repositioning

Changing consumers' perceptions of a brand in relation to competing brands.

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Chapter 8 Video

Numi Organic Tea

Numi Organic Tea describes how its sampling program helps position the brand with its target markets. Its premium position ties naturally into the customer outlined in the film, but Numi is also interested in expanding outside of the major tea drinker into more casual tea drinkers.

[CLICK TO PLAY](#)

Beyond
the
Book

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