Chapter 8
Segmenting and Targeting Markets

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LEARNING OUTCOMES

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

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LEARNING OUTCOMES

8-6 List the steps involved in segmenting markets

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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8-1

Markets and Market Segments

Describe the characteristics of markets and market segments

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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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

Market segmentation by gender: M,F   Market segmentation by age group: 1,2,3   Market segmentation by gender and age group

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8-2   The Importance of Market Segmentation

Explain the importance of market segmentation

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.

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8-3 Criteria for Successful Segmentation

Discuss criteria for successful market segmentation

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.

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8-4 Bases for Segmenting Consumer Markets

Describe the bases commonly used to segment consumer markets

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

◆ Climate

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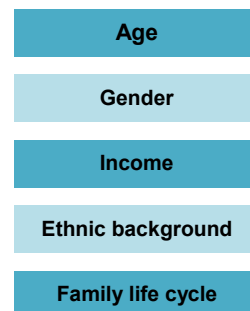## Benefits of Regional Segmentation

◆ 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

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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
- Teens
- Millennials
- Generation X
- Baby Boomers
- The War Generation
- The Great Depression Generation

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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.

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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

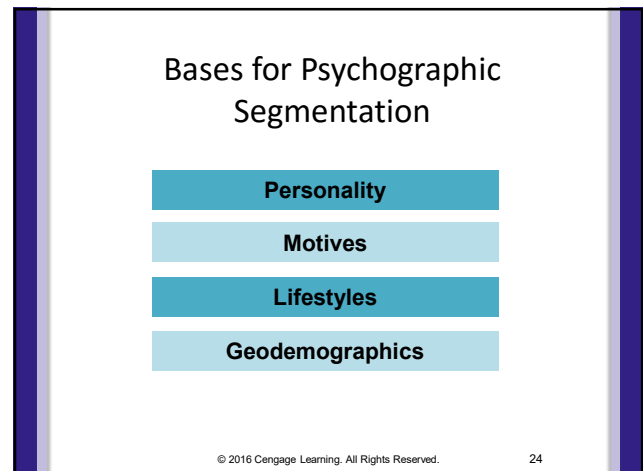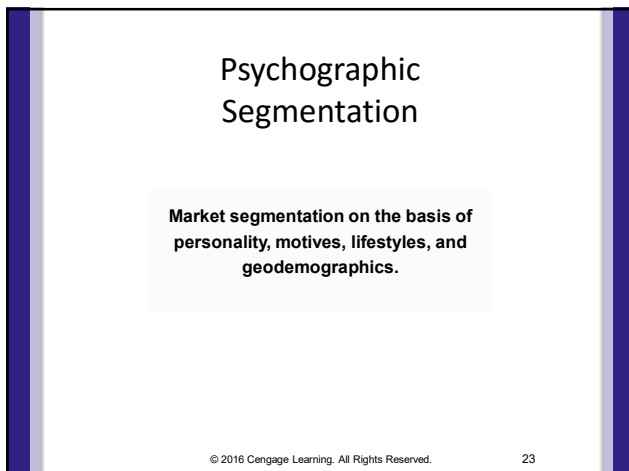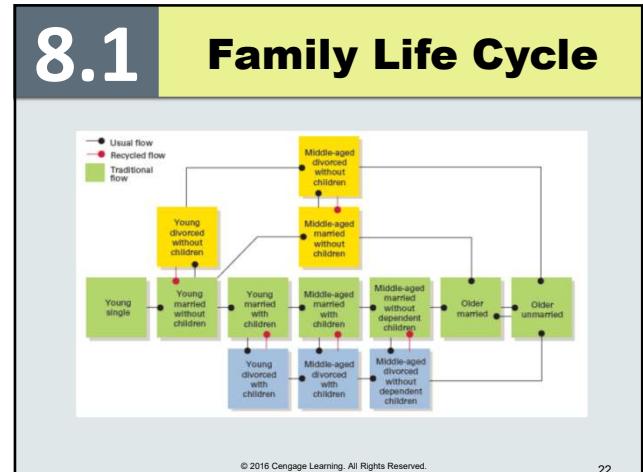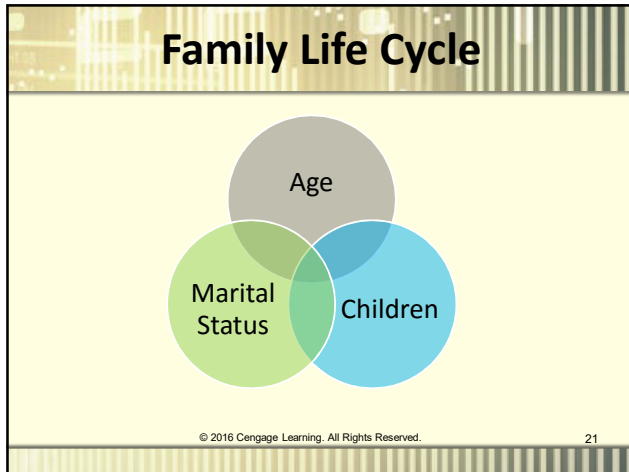The three largest ethnic groups in the United States are:
- Hispanic Americans
- African Americans
- Asian Americans

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

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Family Life Cycle

Age

Marital Status

Children

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8.1 Family Life Cycle

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Psychographic Segmentation

Market segmentation on the basis of personality, motives, lifestyles, and geodemographics.

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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.

Motives

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

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Lifestyle Segmentation

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

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Geodemographic Segmentation

Segmenting potential customers into neighborhood lifestyle categories.

Combines geographic, demographic, and lifestyle segmentation.

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Benefit Segmentation

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

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Usage-Rate Segmentation

Usage-Rate Segmentation	Dividing a market by the amount of product bought or consumed.
80/20 Principle	A principle holding that 20 percent of all customers generate 80 percent of the demand.

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8-5 Bases for Segmenting Business Markets

Describe the bases for segmenting business markets

Bases for Segmenting Business Markets

- Producers
- Resellers
- Government
- Institutions

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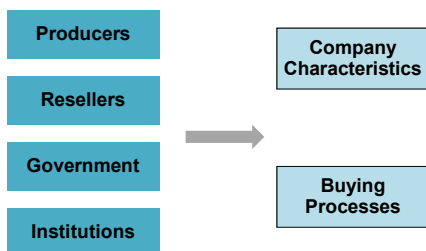
- Company Characteristics
- Buying Processes

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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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8-6

Steps in Segmenting a Market

List the steps involved in segmenting markets

Steps in Segmenting Markets

1 Select a market for study	**2** Choose bases for segmentation	**3** Select descriptors	**4** Profile and analyze segments	**5** Select markets	**6** Design, implement, and maintain marketing mix
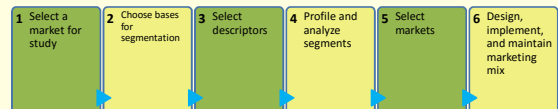
Markets are dynamic, so it is important that companies proactively monitor their segmentation strategies over time.

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8-7 Strategies for Selecting
Target Markets

**Discuss alternative
strategies for selecting
target markets**

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
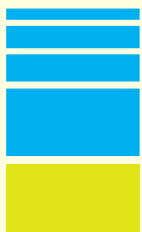satisfying exchanges.

Strategies for Selecting Target Markets

**Undifferentiated
Strategy**   **Concentrated
Strategy**   **Multisegment
Strategy**

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.

Undifferentiated Targeting Strategy

Advantage:

◆ **Potential savings on production and marketing costs**

Disadvantages:

◆ **Unimaginative product offerings**
◆ **Company more susceptible to competition**

Undifferentiated Strategy

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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**
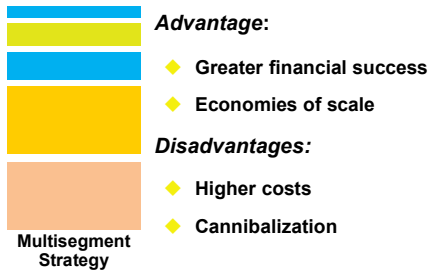
Concentrated Strategy

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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
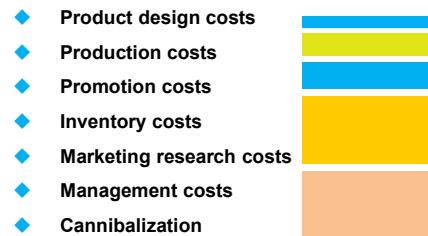
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8-8 CRM as a Targeting Tool

Explain how CRM can be used as a targeting tool

CRM

• 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

- 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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8-9 ## 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	Stan 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.

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