MARKET SEGMENTATION

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MARKET SEGMENTATION

Meaning:

The process of dividing a market into smaller homogeneous markets with similar characteristics is called market segmentation. The firm will focus only on those submarkets which can be served most effectively on the basis of their evaluation of market requirements. This is called target marketing.

Definition:

According to Philip Kotler, “Market segmentation is the sub-dividing of market into homogeneous sub-sections of customers, where any sub-section may conceivably be selected as a market target to be reached with a distinct marketing mix.”

According to Stanton, “Market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-markets or segments, each of which tends to be homogeneous in all significant aspects.”

Market segmentation is just the first step in a three-phase marketing strategy. After segmenting the market into homogeneous clusters, the marketer must select one or more segments to target. So the second step is target marketing, which is the process of evaluating each market segment’s attractiveness and selecting one or more segments to enter.

To accomplish this, the marketer must decide on a specific marketing mix-that is, a specific product, price, channel and promotional appeal for each distinct segment. The third step is market positioning, which involves arranging for a product to occupy a clear, distinctive and desirable place relative to competitive products, in the minds of target consumers.

The concept of market segmentation emerged as an extension of the marketing concept in the latter part of 1950’s. It is based on the simple observation that all the existing and potential consumers are not alike: there are significant differences in their needs, wants, tastes, background, income, education and experience etc. and these characteristics change over time with lifestyle changes.

Had they been alike, it would have eliminated the need to have different variations of the same basic product and one promotional campaign is all that would have been needed. For instance, there would have been only one type of soap, one detergent, one scooter, one computer, one car and so on.

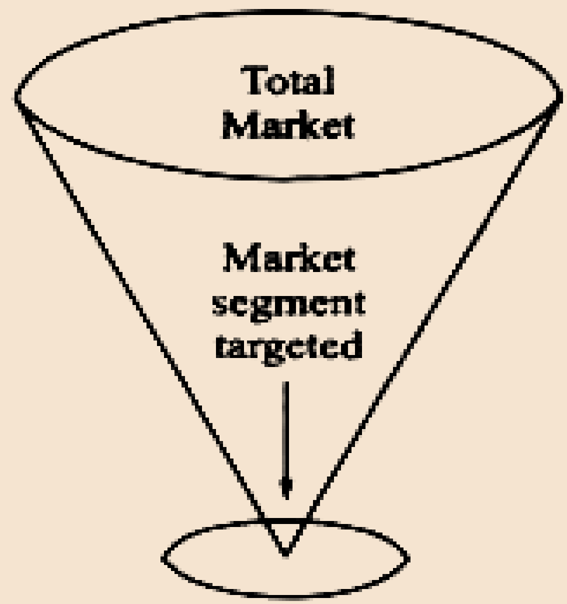

Fig. 5.1 From mass market to market segmentation

The market segmentation to be worthwhile six criteria, as shown below, must be satisfied:

1. Identity:

The marketing manager must have some means of identifying members of the segment, that is, some basis for classifying an individual as being or not being a member of the segment. There must be clear differences between segments. Members of such segments can be readily identified by common characteristics which display similar behaviour.

2. Accessibility:

It must be possible to reach the different segments in regard to both promotion and distribution. In other words, organisation must be able to focus its marketing efforts on the chosen segment. Segments must be accessible in two senses. First, firms must be able to make them aware of products or services. Secondly, they must get these products to them through the distribution system at a reasonable cost.

3. Responsiveness:

A clearly defined segment must react to changes in any of the elements of the marketing mix. For instance, if a particular segment is defined as being cost-conscious, it should react negatively to price rises. If it does not, this is an indication that the segment needs to be refined.

4. Size:

The segment must be reasonably large enough to be a profitable target. It depends upon the number of people in it and their purchasing power. For example, makers of luxury goods may appeal to small but wealthy target markets whereas makers of cheap consumption goods may sell a large number of persons who are relatively poor. The idea is that enough potential buyers must exist to cover the costs of production and marketing required in that segment. This is often called as substantiality.

5. Nature of Demand:

It refers to the different quantities demanded by various segments. Segmentation is required only if there are marked differentiation in terms of demand.

6. Measurability:

The purpose of segmentation is to measure the changing behaviour pattern of consumers. For example, the segments of a market for a car are determined by a number of considerations, such as economy, status, quality, safety, comforts etc.