

SEGMENTATION

Market Segmentation as defined by Philip Kotler,

“Market Segmentation is the process of dividing a market into distinct subgroups of consumers with distinct needs, characteristics, or behaviour, who might require separate products or marketing mixes.”

According to American Marketing Association,

"Market segmentation refers to dividing the heterogeneous markets into smaller customer groups having certain homogeneous characteristics that can be satisfied by the firm."

From the above definitions, it is clear that market segmentation is a marketing strategy of dividing the customers into several homogeneous groups on the basis of some common characteristics such as income, age, sex, education, profession, religion, geographical location, etc. The main aim of the marketing segmentation is basically to prepare the distinct marketing programmes for each segment so that the customers could be satisfied.

The marketing personnel have to identify different approaches of dividing the market into a variety of segments and have also to develop the market segment profile. Market segmentation is the process of dividing the market into various segments and is a step of three-phase marketing strategy.

When the market segmentation is done, then the next step for the marketer is the selection of the segments to be kept in a target. Then the second step comes is the target marketing. Target marketing is the process of identifying and evaluating the attractiveness of each market segment and to selecting the segments to enter. For the triumph of this, the marketing mix is decided by the marketer, i.e., the specification of product, price, place, channel and promotional appeal for each market segment. The third step is positioning of the market which involves arrangement of the product in the minds of the target consumers in such a manner that it provides a clear and distinctive place relative to its competitive products.

Need for Segmentation

There was need of Market Segmentation to encourage target consumers to buy the product. Earlier when there was no market segmentation, then at that times the companies used to market its products on its own. It was done by the mass marketing in which the product was marketed for whole consumers in the same manner. The need of market segmentation was felt and it was first summed by Henry Ford, who offered the model T car of Ford Motor Company to the public in any colour as desired by the consumers, which used to come only in one colour i.e., black. In the same manner when the Coca-Cola Company used to sell its product only in one standard size of bottle, then they used to sell its product through mass marketing only.

Mass marketing is suitable if all the consumers are alike and they have same background, educational qualification, experience, then mass marketing is best suitable. But one cannot have the similar choice as of other human being. With the more awareness among the consumers, the company cannot appeal to all the buyers in the same manner. Rather, consumers are widely spread and they are even too varied in their needs and buying practices. Furthermore, the companies are in present days more capable of serving different segments of the market in different manner. In today's widely scattered market the companies must try to

serve best to its target market and in best possible manner it should serve its consumers better than its competitors.

With the increase in consumer awareness, the companies have moved from mass marketing to the target marketing and market segmentation. The companies select a particular market as market segment and develop its product and marketing mix accordingly. With the adoption of market segmentation, the companies are now able to focus more on those consumers who are more interested in the purchase of its products. The market segmentation has helped companies to differentiate its products from that of its competitors' through styling, packaging, price, promotional activities, distribution methods and best after sale services. Like, in present days the Coca-Cola is available in various sizes, cans and with different ingredients so as to satisfy different segments of the market.

Reasons for the Development of Market Segmentation

Nowadays, every company who has adopted the modern marketing concept is using market segmentation as a part of its marketing strategy. It enables even the small manufacturers to compete in the national level markets. The following reasons for the development of market segmentation:

- *Customer orientation:* In present days, almost all the companies are adopting the modern marketing concept. By market segmentation, a manufacturer become closer to the customers and can better understand their needs and varying behaviour.
- *Increase in competition:* The availability of good number of substitutes for every product in the market increased the competition. The markets have become consumer-oriented. Every manufacturer or seller wants to attract more number of buyers, which is possible if he adopt the strategy of market segmentation.
- *Use of cost reducing techniques:* The business firms are focusing on many cost reducing techniques such as:
 - (i) Open shelf system
 - (ii) Self-service
 - (iii) Use and destroy packages, etc.

By market segmentation a good adjustment in product and his demand is possible. This encouraged market segmentation.

- *Increase in purchasing power:* There is rapid increase in per-capita income and family income, because number of earning members increased in most of families. Now it becomes easy to segment the market on income basis as products for high income group, middle income group and low income group. This factor helps in the development of market segmentation.

- *Technological advancement:* Because of technological advancement, now it has become possible to fabricate more or less at the same cost, with the use of latest technology and modern machinery it has also become possible to produce goods according to the needs of diverse market segments.

Bases for Segmentation

The main thing to be done in market segmentation is to develop the base on which the segmentation is done. The marketer has to decide about the structure to be followed in market segmentation in which various market bases or market variables are considered, even a combination of both is followed. The step towards developing a segmentation strategy is to locate the base or basis for segmenting the market. There are different bases which are used to segment the market. Prof. Cundiff and Still have given a very simple division of product market.

- Consumer Market.
- Industrial Market.

According to Philip Kotler, consumer market can be segmented on the basis of:

- Geographical basis;
- Demographic basis;
- Psychological basis;
- Marketing basis;
- Profit basis;
- Quantum basis;
- Loyalty basis.

The market for industrial products can be segmented on the basis of:

- Type of business ;
- Usual purchasing procedure
- Size of users;
- Geographical market segmentation.

The main bases of market segmentation are as follows:

1 Geographic Segmentation: In geographic segmentation, the market is divided into different geographical units such as nations, regions, states, cities, or neighbourhood. A company has to pay separate attention to different geographical segments differently and it might also decide to operate in one geographical location, in more than one also. This all depends upon the company whether it operates in one location or two. Like

woollen cloths are sold more in north India as compared to south India due to geographical segmentation, laptops are more sold in urban areas while fertilisers are more sold in rural areas. All this type segmentation is done on the basis of the geographic segmentation.

2 Demographic Segmentation: In demographic segmentation, the market is divided into groups based on the variables such as age, gender, family size, family life cycle, income, occupation, education, race, generation, nationality. This is the most common method of market segmentation in which the markets are segmented on the basis of demographic variables. The reason for the adoption of this method is that consumer needs, wants, usage rates vary closely with demographic variables and the other segment is easy measurement of this variable as compared to other variables.

- For example: garments are divided on the basis of age and gender which is the most suitable variable for the segmentation of garments.
- *Income:* Income is a valid segmentation base but in some countries social class is used as a base for market segmentation. As income disclosure is a privacy matter, so generally marketers divide the market on the basis of social class.
- *Sex:* Sex in terms of female and male split is also an obvious base for market segmentation as this helps in market segmentation of the personal products very easily.
- *Age:* market segmentation on the basis of age helps in the proper market segmentation. This is generally done in case of garment sector in which the clothing is divided on the basis of age.
- *Social class:* it is the highest regarded segmentation variable in United Kingdom. Generally population is divided as upper middle class, middle class, lower middle class, skilled workers, working class and lowest level of subsistence.
- *Education:* Education is occasionally referred as TEA that is terminal education age. This type of segmentation is linked with the habits of consumers like their reading and listening habits. The specification of these habits of the consumers helps the companies to understand the consumers properly.
- *Ethnic background:* Ethnic background makes a discrete segment for segmentation and targeting purposes. In this the main categories dealt are clothing and food items
- *Family size:* Family size is segmentation based which helps the marketer to understand about the amount and size of purchases to be made by the customer.
- *Political leaning:* This type of segmentation relates to the type of media used by that particular segment. In this the mainly used type is advertisement to make consumers understand what the company wants to sell.

- *Family life cycle*: family life cycle explains the various stages which are present in a family which are, bachelor stage, newly married stage, and full nest stage having married couple with the dependent children at home, also empty nest stage. Family life cycle gives the idea to the producer regarding various demands to be made by the different series of Phases of family.
- *Occupation*: occupation groups are basically divided into two parts, white collar and blue collar groups.

3 Psychographic Segmentation: In psychographic segmentation, the market is divided into different groups on the basis of social class, lifestyles, personality character. The people in the same demographic group could have different psychographic tastes. In this, the main variables which are considered are lifestyle and attitudes of people as the buyer behaviour predominantly depend upon these in case of some certain products.

For example: Reid & Taylor suiting is suitable for Elite Class.

- *Upwardly mobile*: Upwardly mobile class of people are those who are ambitious people seeking a better life style which are better paid off and this class of people are generally ready to try new products.
- *Traditional and sociable*: This group of people are generally those seeking comfortable and compliance with the group norms and they generally seek approval and make traditionalist purchases.
- *Security and status seeking*: the people of this group normally purchases the well known brands and the people belonging to this group makes purchases which make them confer their status and make their life more predictable.
- *Hedonistic preference*: this group reflects those people who believe in enjoying life for the present with just a little thinking of the future.

4 Behavioural Segmentation: In behavioural segmentation, the market is divided on the basis of knowledge, attitude, uses or responses to a product.

- *Occasions for Purchase*: Buyers can be divided on the basis of occasions when the users get idea for buying the product; they actually buy and use the product. Like jewellery is mainly purchased on the festivals and wedding occasions.
- Buyer can also be divided on *the basis of benefits* that they seek from the product like the laundry products of Proctor & Gamble are launched with the unique benefits like cleaning, bleaching, economy, fabric softening, and fresh smell, strong and mild smell.

- *Usage Status*: Buyer can be divided on the basis of user status like ex-users, present users, potential users and first time users and regular users.
- Market can also be segmented on *the basis of degree of consumption* like light, medium or heavy user consumers.
- *Brand Loyalty*: Buyer can be divided on the basis of loyalty status of the consumers. Like buyers are loyal to companies, brands, and even to the stores.

Segmentation Bases in Organisational Markets

Organisational markets are those in which comprises of industrial, institutional and resale markets.

- Industrial Markets*: Industrial markets are those markets whose ultimate aim is to satisfy the needs of the customers of the company. The aim of the marketers is to keep the production satisfied in order of meeting the materials and components.
- Institutional Markets*: Institutional markets are those whose criterion is on spending within the predetermined budgeted limit which has been set for the expenditure. These relate to the purchasing by the public institutions such as police forces, fire services, local and central government establishments and educational establishments.
- Resale Markets*: This type of markets includes those products which are to be purchased from the manufacturers in bulk and are to be sold to the individual customers.
- Geographic Segmentation*: It is a country wide split based on the territories of the sales persons, which are generally called areas or regions. In global marketing, the different parts of the world are known as different segments.
- Benefits Sought*: This is the most powerful form of the segmentation in customer market segmentation.
- Type of customer*: Market segmentation on the basis of the types of customers to be dealt is retail customers, independent customers, multiple group customers, heavy engineering customers and so on.
- Customer size and loyalty*: This is the key selling where a manager deals directly with the major accounts of the company. For example a customer who purchases the large amount are kept as merit customers and they are dealt in different way as a customer who makes small purchases.
- Usage rate*: Light users and heavy users are the basic criteria for segmentation of markets on the basis of usage rates.

The basis of segmentation for the organisational markets is similar to the segmentation of the customer markets. Sub-segmentation is also possible for the smaller sub-segments.

TARGETING

The list below refers to what's needed to evaluate the potential and commercial attractiveness of each segment.

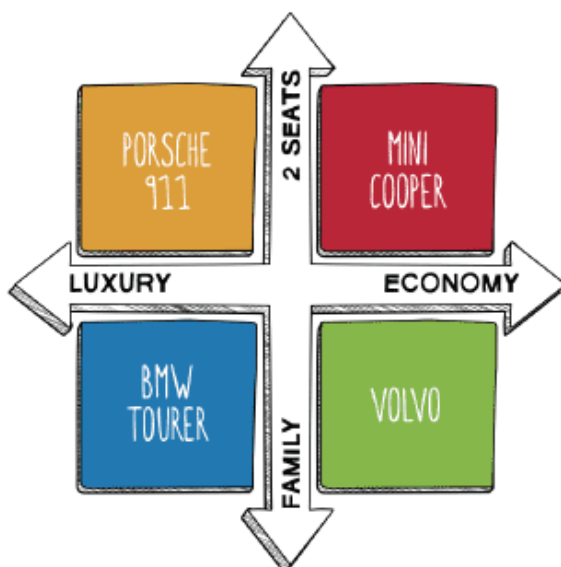
- **Criteria size:** The market must be large enough to justify segmenting. If the market is small, it may make it smaller.
- **Difference:** Measurable differences must exist between segments.
- **Money:** Anticipated profits must exceed the costs of additional marketing plans and other changes.
- **Accessible:** Each segment must be accessible to your team and the segment must be able to receive your marketing messages
- **Focus on different benefits:** Different segments must need different benefits.

POSITIONING

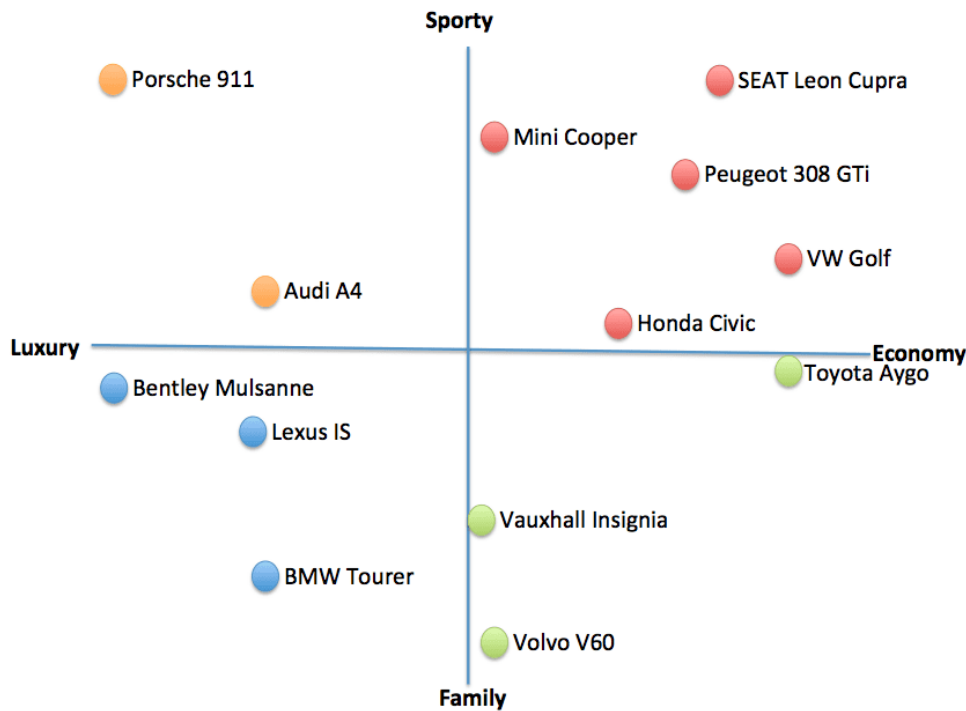
Positioning maps are the last element of the STP process. For this to work, you need two variables to illustrate the market overview.

In the example here, I've taken some cars available in the UK. This isn't a detailed product position map, more of an illustration. If there were no cars in one segment it could indicate a market opportunity.

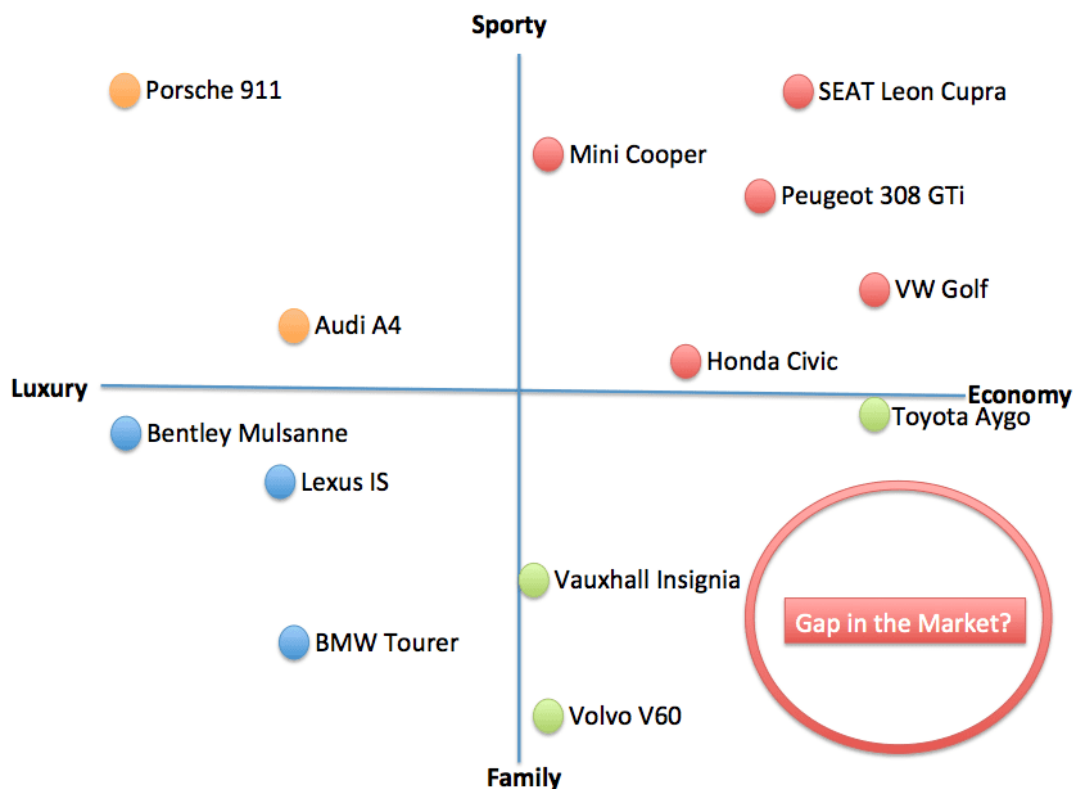
A POSITIONING MAP EXAMPLE



Expanding on the extremely basic example above, you can unpack the market by mapping your competitors onto a matrix based on key factors that determine purchase.



This chart is not meant to be any kind of accurate representation of the car market, but rather just illustrate how you could use a product positioning map to analyze your own businesses current position in the market, and identify opportunities. For example, as you can see in the gap below, we've identified in a possible opportunity in the market for low-priced family cars.



MEANING OF CONSUMER BEHAVIOUR

The “consumer” more generally refers to anyone engaging in any of the activities (evaluating, acquiring, using or disposing of goods and services) used in the definition of consumer behaviour.

Consumer behaviour is a decision process and physical activity individuals engage in when evaluating, acquiring, using or disposing of goods and services.

IMPORTANCE OF CONSUMER BEHAVIOUR

It is important for marketers to study consumer Behaviour. This helps marketers to investigate and understand the way in which consumers behave.

Below are some of the importance of consumer behaviour is given below:

1. Manufacturing policies
 2. Price policies
 3. Decision regarding channels of distribution
 4. Decision regarding sales promotion
 5. Exploiting marketing opportunities
 6. Highly diversified consumer preferences
 7. New Technological product
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1. **Manufacturing policies:** - The study of consumer behaviour affects the manufacturing policies of the organisation. Consumer behaviour helps an organisation to plan and develop its products according to consumer need and preference.
 2. **Price policies:** - Consumer behaviour helps the marketer to set the price in the market. Consumer prefers optimal solution combine with production policies.
 3. **Decision regarding channels of distribution:** - Consumer prefers difference channel of purchase which is influenced by many factors.
 4. **Decision regarding sales promotion:** - consumer behaviour enables the marketer to know what motive prompt consumer to make a purchase and the same are used in overall marketing strategy.
 5. **Exploiting marketing opportunities:** - Consumer behaviour guide the marketers to understand the consumer’s problem, needs, want and expectations and according to exploiting marketing opportunities.
 6. **Highly diversified consumer preferences:** - Availability of more choice now has diversified consumer preference. Therefore study of consumer behaviour is a crucial and challenging task for marketers.
 7. **New Technological product:** - Rapid introduction of a new product with technological advancement has made the job of studying consumer behaviour more imperative.

COMPARISON BETWEEN ORGANIZATIONAL BUYING BEHAVIOUR AND CONSUMER BUYING BEHAVIOUR

BASIS	ORGANIZATIONAL BUYING BEHAVIOUR	CONSUMER BUYING BEHAVIOUR
Purpose of Buying	The individual consumers buy goods and services for ultimate use or satisfy their needs. The buying purpose of such consumers is not to earn profit by reselling the goods and services.	The organizations buy goods and services for their business needs. The buying purpose of them is to earn profit by using and reselling the goods and services.
Quantity	Although consumers buy various kinds of goods, the quantity of goods remains small. They buy only the necessary quantity of goods, which they need for regular use.	Organizational buying is done in large quantities. There are several reasons why organizations must buy the goods they need in bulk. In the first place, they use large quantities of each item and must maintain inventories at a level high enough that they will not run out of stock. Secondly, it is cheaper and more efficient to make large-volume purchases.
Purchase Decision	Consumer buying takes decision by consumers themselves. Sometimes they can consult with family members and friends. They need not fulfill any formality like organizational buying.	Organizational purchasing is a rational process because the purchasing behavior of organizations is guided by objective factors having to do with production and distribution. It takes long time than consumer buying.
Market Knowledge	Most of the consumers may not have adequate knowledge and information about market situation, available goods and services, etc. The educated customers may be aware and have knowledge about market and goods.	Organizational purchase criteria are specifically defined. Organizational buyers usually have fewer brands to choose from than do individuals, and their purchases must be evaluated on the basis of criteria that are specific to the overall needs of the organization. The organizational buyers have full knowledge of market and suppliers.
Types of Goods	Consumers buy many goods to use to satisfy personal or family needs.	Organizational buyers buy limited goods to use to conduct business.
Effect	Consumer buying behavior is effected by age, occupation, income level, education, gender etc. of consumers.	Many individuals are involved in the buying process. Within large organizations, rarely is one individual solely responsible for the purchase of products for the purchase of products or services. Instead, many individuals and departments may be involved and departments may be involved in the buying process.
Buying Process	The consumer buying process is very simple. No need to fulfill any formality. There is also no need to maintain extensive contact with sellers.	Buyers and sellers in the organizational market must maintain extensive contact

BUYING ROLES

For many products, it is easy to identify the buyer. Men normally choose their shaving equipment and women choose their lipsticks. Other products involve a decision-making unit consisting of more than one person.

Consider the selection of a family automobile. The teenage son may have suggested buying a new car. A friend might advise the family on the kind of car to buy. The husband might choose the make. The wife might have definite desires regarding the car's size and interior. The husband might make the financial offer. The wife might use the car more often than her husband.

Thus we can distinguish five roles people might play in a buying decision:

- i. Initiator:** A person who first suggests the idea of buying the particular product or service.
- ii. Influencer:** A person whose view or advice influences the decision.
- iii. Decider:** A person who decides on any component of a buying decision; whether to buy, what to buy, how to buy, or where to buy
- iv. Buyer:** The person who makes the actual purchase.
- v. User:** A person who consumes or uses the product or service.

A company needs to identify these roles because they have implications for designing the product, determining messages, and allocating the promotional budget. If the husband decides on the car make then the auto company will direct advertising to reach husbands. The auto company might design certain car features to please the wife. Knowing the main participants and their roles helps the marketer fine-tune the marketing program.

FIVE STEPS BUYER DECISION PROCESS

The customer buying process (also called a buying decision process) describes the journey your customer goes through before they buy your product. Understanding your customer's buying process is not only very important for your salespeople, it will also enable you to align your sales strategy accordingly.

The five stages framework remains a good way to evaluate the customer's buying process. John Dewey first introduced the following five stages in 1910:

1. Problem/need recognition

This is often identified as the first and most important step in the customer's decision process. A purchase cannot take place without the recognition of the need. The need may have been triggered by internal stimuli (such as hunger or thirst) or external stimuli (such as advertising or word of mouth).

2. Information search

Having recognised a problem or need, the next step a customer may take is the information search stage, in order to find out what they feel is the best solution. This is the buyer's effort to search internal and external business environments, in order to identify and evaluate information sources related to the central buying decision. Your customer may rely on print, visual, online media or word of mouth for obtaining information.

3. Evaluation of alternatives

As you might expect, individuals will evaluate different products or brands at this stage on the basis of alternative product attributes – those which have the ability to deliver the benefits the customer is seeking. A factor that heavily influences this stage is the customer's attitude. Involvement is another factor that influences the evaluation process. For example, if the customer's attitude is positive and involvement is high, then they will evaluate a number of companies or brands; but if it is low, only one company or brand will be evaluated.

4. Purchase decision

The penultimate stage is where the purchase takes place. Philip Kotler (2009) states that the final purchase decision may be 'disrupted' by two factors: negative feedback from other customers and the level of motivation to accept the feedback. For example, having gone through the previous three stages, a customer chooses to buy a new telescope. However, because his very good friend, a keen astronomer, gives him negative feedback, he will then be bound to change his preference. Furthermore, the decision may be disrupted due to unforeseen situations such as a sudden job loss or relocation.

5. Post-purchase behaviour

In brief, customers will compare products with their previous expectations and will be either satisfied or dissatisfied. Therefore, these stages are critical in retaining customers. This can greatly affect the decision process for similar purchases from the same company in the future, having a knock-on effect at the information search stage and evaluation of alternatives stage. If your customer is satisfied, this will result in brand loyalty, and the Information search and Evaluation of alternative stages will often be fast-tracked or skipped altogether.

On the basis of being either satisfied or dissatisfied, it is common for customers to distribute their positive or negative feedback about the product. This may be through reviews on website, social media networks or word of mouth. Companies should be very careful to create positive post-purchase communication, in order to engage customers and make the process as efficient as possible.

CONTEMPORARY TOPICS

Viral Marketing

Viral marketing seeks to spread information about a product or service from person to person by word of mouth or sharing via the internet or email. The goal of viral marketing is to inspire individuals to share a marketing message to friends, family and other individuals to create exponential growth in the number of its recipients.

EXAMPLE: - How Lay's Chips Crowdsourced Snack Flavors and Built a Tasty Tribe In 2012, Food Company Frito-Lay rolled out a tasty campaign entitled "Do Us a Flavor." Via Facebook app and SMS, fans had the power to suggest and then vote for a new flavor of potato chips. Of course, it helped that the prize was \$1 million dollars.

A panel of celebrity chefs judged the entries. And three finalist flavors emerged: Cheesy Garlic Bread, Sriracha, and Chicken & Waffles. Frito-Lay produced the three flavors at the same time, urging fans to vote via Facebook, Twitter, or SMS. Thousands did. The winner? Cheesy Garlic Bread.

The viral campaign tripled the numbers of Frito-Lay's US Facebook fans, increasing sales by 12% nationwide.⁰⁰⁵

What Made It Viral

- **Inclusion:** Giving fans a say in product development is ordinary for technology companies. But for potato chips? By doing this, Frito-Lay was able to get people excited about a new product that they got to suggest and vote on. Instant engagement.
- **Incentive:** With a cash prize like \$1 million dollars (or 1% of net sales on the new flavor), who wouldn't want to participate?
- **Low Barrier to Entry:** If you want things to go viral, then lower the barrier so that more people can take part. They had a Facebook app and Twitter, but also SMS, which meant anyone with a phone could suggest flavors or vote.

Guerrilla Marketing

Guerrilla marketing is a marketing/advertising strategy used by most of the brands and small businesses around the globe to advertise its product unconventionally. The main aim of using this marketing technique is to create awareness and grab user attention by creating a campaign that can last in consumer memory for a long time.



Social and Societal Marketing

The societal marketing concept holds that a company should make good marketing decisions by considering consumers' wants, the company's requirements, and society's long-term interests.

Social marketing is an approach used to develop activities aimed at changing or maintaining people's behaviour for the benefit of individuals and society as a whole.

Relationship Marketing

The Relationship Marketing refers to the activities undertaken by the firm to establish and maintain the profitability and the long-term relationship with the customers.

E.g. The Dominos emphasizes on relationship marketing by making the feedback calls to the customers, to know about the quality of their pizza, once delivered.

Green marketing

Green marketing refers to the process of selling products and/or services based on their environmental benefits. Such a product or service may be environmentally friendly in itself or produced and/or packaged in an environmentally friendly way.

Digital marketing

Digital marketing is the use of the Internet, mobile devices, social media, search engines, and other channels to reach consumers. Some marketing experts consider digital marketing to be an entirely new endeavor that requires a new way of approaching customers and new ways of understanding how customers behave compared to traditional marketing.

Network marketing

Network marketing is a business model that depends on person-to-person sales by independent representatives, often working from home. A network marketing business may require you to build a network of business partners or salespeople to assist with lead generation and closing sales.