

UNIT 97 – UPSC - Segmenting and Targeting the Market (Organisational Behaviour and Design)

Good marketing involves the right marketing mix to targeted customer. Marketing forms the lucrative customer relationship. The major aim of marketing is to realize value for customers and create more wealth for organisations. Basically, marketing deals in to recognise and fulfil human and social needs. Consequently marketing has important role in any firms or business success. There is systematic way of marketing and the marketing segmentation is the core of marketing. Segmentation, targeting and positioning notions for a business products and services are imperative to widen customer base. A segment is an exceptional group of customers or probable customer who share some common characteristic that make them dissimilar from other groups. Everyone has the own view and own choices. It is very important for us to keep a healthy relationship with the customers and to do this they need to understand their customers' demand. Segmentation is very valuable tool. But it is essential for marketer to understand each and every sub-group in order to get the positive result from customers and to compete with competitors in the market. It is not practicable to go after all customers, because customers have different wants, needs and tastes. Some customers want to be style leaders. They will always purchase certain styles and usually pay a high price spent more money for them. Other customers are involved in bargaining while buying the product. They try to look for items at the lowest price. Clearly, a company would have difficulty to target such market segments concurrently with one type of product. For example, a company with premium products would not attract to bargain customers. Segmentation and targeting comprises of three stage process. Firstly, it is determined which kinds of customers exist, select which ones are best off trying to serve and implement segmentation by optimizing products/services for that segment and communicating that company has made the choice.



Theoretical Literature demotes that Segmentation is process that an organisation adopt to segregate the market into different groups according to the dissimilar characteristics which might need different products. The Seller, groups various people into segments on the basis of analogous

characteristics, tastes, perception so that they will have a similar response to a specific product launched specifically for each segment. Segmentation is an effective way to explore what kinds of consumers with different needs exist. Market segmentation is the process of dividing whole market into diverse customer segments. Targeting or target marketing involves in deciding which potential customer segments the company will focus on. Marketing segmentation always comes before targeting, which assists a company to be more discerning about who they are marketing their products to. Marketing segmentation and targeting are similarly vital to ensure huge success of a company. If we take example of automobile market some consumers needs speed and performance, while others are concerned about roominess and safety. It can be established that it is not possible to be all things to all people. Scholars have stated that companies that concentrate to fulfil the needs of one group of consumers over another tend to be more money making. The objective of segmentation is to focus on marketing energy and force on subdividing to compete within the segment. It is parallel to the soldierly principle of concentration of force to overwhelm energy. Concentration of marketing energy is the core of all marketing policies and market segmentation is the conceptual device to accomplish this focus. The seller must try to understand the target market's needs, wants, and demands. For example, American people need food but wants hamburger, French fries and a soft drink. Wants are shaped by one's society (Kotler, 2000). Cartwright (2002) stated that need is something that people cannot do without, but a want is the method by which people would like the need to be satisfied. Demands are wants for specific products backed by an ability to pay (Kotler, 2000).

Market segmentation was first proposed in the middle of 1950s by Wendell.R.Smith, an American professor of marketing. According to theorists, "Market segmentation is to divide a market into smaller groups of buyers with distinct needs, characteristics, or behaviours who might require separate products or marketing mixes" (Charles W. Lamb 2003).

Requirement for Market Segmentation

The market segmentation is intended to increase competency, sales volume and profit ability of the organization. To get success, the following requirement should be fulfilled.

Measurable: Segmentation of market is operational only when the information on the buyer's need and characteristics are measurable. Customer response based on quantifiable information is simply measureable. Otherwise marketing program cannot be articulated and implemented.

Accessible: the market segment should be accessible through exciting marketing institutions such as middlemen, advertising media, company sales forces- with a minimum of cost and wasted efforts.

Profitable: Each segment should be big to be lucrative. It must be able to create enough demand for the company's product. It should attract the targeted customers scattered into different parts of the world.

Stable: Market segmentation should be adequately stable over a time period to cover the investment made in segmentation.

Heterogeneous needs and characteristics: The effective segmentation of marketing requires different in buyer's characteristics. Differentiation in product needs and buyers' characteristics help the organization for market segmentation to divide total market.



Numerous studies have described segmentation as the process of dividing the market into groups of customers or consumers with similar needs. The more thoroughly the needs match up, the smaller the segment tends to be, but the higher the best customers are expected to be prepared to pay to have a product that more exactly meets their needs (Blythe, 2003). Segmentation allows marketers to recognize different groups of customers whose behaviours significantly differ from others. This enables companies to modify their marketing mix, to furnish to particular needs of different market studies (Kotler, Armstrong, Saunders, & Wong, 2002).

There are numerous segmentation that include Geographic segmentation, population density or climate, demographic segmentation that is markets segmented by age, sex, size and family type, psychographic segmentation like markets segmented by life-style variables and behavioural segmentation such as markets segmented by purchase occasion, benefits sought, user status. These four segmentation will depend on many factors such as "the type of product, the nature of demand, the method of distribution, the media available for market communication, and the motivation of the buyers" (Chisnall 1985).

Figure: variables in market segmentation:



Geographic segmentation is a marketing strategy that divide segment according to geographic region such as nations, states, regions, counties, cities, or neighbourhoods. Marketers will modify marketing programs to fit the needs of individual geographic areas, localizing the products, advertising, and sales effort to geographic differences in needs and wants. Marketers will thoroughly study the population density or regional climate as factors of geographic segmentation.

Demographic variables are basically a personal statistics such as income, gender, education, location (rural vs. urban, East vs. West), ethnicity, and family size. Some consumers want to be seen as similar to others, while a different segment wants to stand apart from the crowd. Fundamentally, demographic segmentation Involves dividing the market on the basis of statistical differences in personal characteristics, such as age, gender, race, income, life stage, occupation, and education level (Anon 2002). Marketers can focus on customers' age because user needs and wants vary with their age although they still want to learn the same types of courses. In order to familiarise the new ideas in market, it is significant to look at the design of the courses and what will be the learning outcomes to meet the user demands of different age group. Income is another popular basis of segmentation. Customers will be more attractive towards the less cost. We need to understand this point that in marketing the courses that appeal directly to the customer is relatively low prices.

Another variable for segmentation is behaviour. According to Lancaster and Reynolds, behavioural segmentation is based on actual customer's' behaviour' towards products. It has the advantages of using variables that are closely related to the product itself. Such as brand loyalty, benefits sought, occasions like holidays, events which stimulate point for marketing. Lancaster & Reynolds

stated that the customers can be divided into number of groups according to their loyalty, or their propensity to repurchase brand again is called brand loyalty. Some consumers are fond of brand such as they tend to stick with their favoured brands even when a competing product is on sale. Some consumers are "heavy" users while others are "light" users.

There are many forms of Behavioural segmentation. Buying on occasions is the first form of behavioural segmentation. Products such as chocolates and premium foods will get selling on festivals. Similarly, confectioneries will get selling when there is a party. Thus these products are generally targeted by behavioural segmentation. Good example of targeting buying on occasions is Hallmark greeting cards for all occasions. The primary targeting of symbol was that be it any occasion, you will find the right kind of card for you. Thus you have the perfect option to express yourself. Benefits sought are another form. Several products are targeted towards the benefits sought by the customer. Loyalty is also type of behaviour segmentation. There are two ways to grow a business. First is to acquire new customers and second is to retain your existing customers. The more loyal customer is to marketer, the more customer base will increase. That's one more kind of behaviour which marketers target. The strategy for brand loyal customers is very different from that used for acquiring new customers. The example of behavioural segmentation by loyalty is observed in the hospitality segment wherein airlines, hotels, restaurants and others give their best to provide the best service possible such that they can retain their customer.

The hospitality sector is the one with the best loyalty programs ever. Thus the loyalty of the customer can also be used for behavioural segmentation. In Usage rate type, the usage can be demonstrated in the form of heavy usage, moderate usage or lesser usage. Another example of usage rate segmentations is in the electronics as well as the FMCG industry in industrial buying. FMCG and electronics works on the basis of a channel with dealers and distributors. In these segments, the maximum discount goes to the one who buys the maximum whereas others get lesser profits as they also get lesser discounts.

Psychographic segmentation is based on the notion that the types of products and brands an individual purchases will replicate that person's personality and patterns of living. It promotes the product using celebrities, such as football team in order to create a big image in front of users. Everyone has different life style, they have their own opinions but it could be influenced by other people personalities. This is benefit for us because for example, if David Beckham is learning the team building strategies from our institute then the user influencing his fans to join in the same course.

Marketers can also segment on benefits sought, essentially bypassing demographic explanatory variables. Such as, some consumers prefer scented soap and a segment likely to be attracted to brands such as Irish Spring, while others choose the unscented soap. The premium customers are prepared to pay to have a product that more exactly meets their needs (Blythe, 2003).

Process of Market Segmentation

Market segmentation is implemented into many phases.

- I. Survey: Market segmentation originally starts in the market survey. The market survey is usually in a large scale and this is an expensive part. This survey is conducted to

recognize the need of the market and to study the characteristics of market. In survey product attributes desired by customers, brand awareness, product usage pattern, demographics features (sex, age, income, family, size) psychographics (consumer's personality, buying oriented and media graphic (news, radio, and TV programmers) are studied.

- II. Analysis: After conducting survey, all information has to be tabulated and analysed. Marketers must have to use two tools to analyse the information. They are factor analysis and cluster analysing. Factor analysis is used to isolate highly correlated variables and cluster analysis is used to locate homogeneous clusters of needs and character factor.
- III. Profiling: In this stage all the identified clusters are profiled about attitude, age, sex, need, personality, behaviour, psychographics, and demographics. It involves identifying similarities and dissimilarities among the clusters of demand for the product.
- IV. Evaluate market segment and selection of target market: In this stage the marketer has to foresee demand for each component and has to analyse competitive position of the company. Prediction of segment size and assessment in potential corporate goals are included in it. Through segment evaluation, company can enter into more than one segment and it can also adopt separate marketing program for each of the target markets.
- V. Development of positioning strategy and establishing a marketing plan: After the selection of market segment, it must be positioning for its own product for making target market more accessible and company should develop overall marketing plan about product, distribution, price and promotion.

Benefits of Market Segmentation

Organizations make best efforts to ensure that their marketing has positive impact on consumers. In tough competition environment, it is difficult for a mass marketing strategy to succeed. Customers are becoming more diversified and firms are continually differentiating their products relative to competitors. When the focus is on segmented markets, the company's marketing can better match the needs of that group. Market segmentation enables organizations to focus their resources more efficiently and get success in business. Marketing, product and brand managers are constantly being asked to increase their return on investment. They are looking for new information about their markets, and new ways to approach them. Market segmentation focuses on that subdivision of prospects that have the utmost potential of becoming customers and generating income. Companies who segment their markets match their strengths and offerings to the groups of customers most likely to respond to them. The objective of market segmentation is to produce a commercial advantage. Once a commercial advantage is obtained, marketing decisions become considerably safer and more powerful. Through segmentation, marketers can apply more specific characterizations to each group, as each group no longer encompasses the entire market. Psychographic segmentation offers good understanding into the consumer as a person, which is more likely lead to the identification of underlying needs and motives. As a result, psychographic segmentation should deliver a much better understanding of the consumer, which in turn should create more valid and responsive segments and subsequent marketing programs. Segmenting by demographics is easy for everybody to understand, from management, to sales and customer service staff. It can be more easily built into an internal marketing plan. There are many factors which can be responsible for market segmentation. Amandeep singh (2011) have shown in

study that earlier demographic factors were considered for segmentation but they are no longer operative for segmentation in FMCG sector.

Challenges of Market Segmentation

Currently, market segmentation has emerged as the vital source for growing a business. But there are numerous issues challenging market segmentation. Transforming the needs of market segments into financial services, product features, and delivery channels is a major challenge. Financial service offers need to assess their own capacity and strategic objectives to discover the appropriate balance between developing products that meet universal needs versus serving the distinct needs of specific segments, and individuals.

Targeting

When segmentation process is completed on the different groups and classes, Organizations will have to select targets. Target market comprises of set of buyers who share common needs or behaviour characteristics that company decides to serve. Kotler visualized targeting is the best way to approach marketing problems, the "framework for strategic success in the marketplace" (Kotler 1991). It is established that there is no single strategy that can suit all consumer groups. Therefore it is necessary to develop specific strategies for target markets. Targeting evaluates the desirability of each segment of its buying power, size, growth of the market, competitiveness. Defending a target market requires market segmentation, "the process of pulling apart the entire market as a whole and separating it into manageable, disparate units based on demographics". After that marketers choose or come up with a particular strategy or a product itself for each targeted segment. Target marketing makes the promotion, pricing and distribution of the products or services in a particular segment. Target marketing offers a focus to all marketing operations. Theoretical literature denoted that Market targeting helps businesses come up with tailor made products and marketing campaigns to address the needs of the different market groups, but companies need to factor in the current market environment, buyer preferences, competitor actions etc. to launch their targeting plan.

Market targeting is associated with choosing one's target market. A business must go through following step-by-step approach: Evaluate market segments. Companies must realize the segment size, growth pattern, segment attractiveness, competitors operating in that segment and company objectives. Marketers need to choose whether or not the segment has the ability to offer a long-term appeal and basis for development.

Selecting target market segments: A business can either target the buyers largely or in narrowly. Based on this perception, marketers can create mass marketing strategies, differentiated, concentrated or micromarketing strategies.

Choosing a Targeting Strategy: As per product life cycle stage, company resources, market variability, competitor's strategies, and business can select targeting strategy. In competitive business environment, companies must see to it that they involve the consumers in all phases of product development and buying process. It is important to reach out to them and know their preferences before adopting a targeting strategy.

Socially responsible market targeting: While formulating a market targeting plan, it is important to ensure that it is parallel with the social and legal policies and sensitivity of the markets.



There are three general strategies to choose target markets:

Undifferentiated Targeting: This approach refers to the market as one group with no individual segments, therefore using a single marketing strategy. This strategy may be beneficial for a business or product with little competition where you may not need to tailor strategies for different preferences. Mass/undifferentiated marketing is concerned with selling a single product to the whole market. This strategy is based on the statement that, in respect to the product in question, customers' needs are very similar if not identical. The advantage for the company is that it can produce on a large scale, benefiting from low unit production costs via economies of scale. These lower costs can be passed on to the consumer in the form of lower prices. The limitation of mass marketing is that consumers are less interested in standardised products and often willing to pay best prices for products that provide for their specific needs.

Concentrated Targeting: This approach involves in selecting a particular market place on which marketing efforts are targeted. Company focuses on a single segment so you can concentrate on understanding the needs and wants of that particular market intimately. Small companies benefit from this strategy as focusing on one segment enables them to compete effectively against larger firms. Niche/concentration marketing is associated with targeting one particular, well-defined group of customers (a niche) within the overall market. Niche markets can be targeted successfully by small firms who have comparatively small overheads and, therefore, do not need to accomplish the volume of sales required by big competitors. The major drawback of niche markets are that

the potential for sales growth and economies of scale may be limited, and company survival may be affected if sales decline.

Multi-Segment Targeting: This approach is used when marketers need to focus on two or more well defined market segments and want to develop different strategies for them. Multi segment targeting offers many benefits but can be expensive as it involves greater input from management, increased market research and increased promotional strategies.

Differentiated/selective marketing is related with targeting each segment with a product with its own marketing mix designed to match the needs of the consumers within the segment.

Customized marketing: In some markets, the requirements of individual customers are exclusive and their purchasing power is more to make designing a separate marketing mix for each customer a viable option. Many service providers such as advertising, marketing research firms, architects and solicitors vary their offerings on a customer to customer basis. Before choosing a particular targeting strategy, marketers must do cost benefit analysis between all available strategies and determine which will suit your situation best.

Process of Choosing Target Market

It must ensure that target market is not identical to segmentation. Segmentation is the first step of the target market. Target market has different basis of segmentation. It is necessary to analyse each segment as a separate marketing opportunity and constantly evaluate the worth of each segment. Marketers must estimate whether the segment is Distinguishable, Measurable, Sizable, Accessible, Growing, Profitable, compatible with the firm's resources, check if the firm has the differential advantage and distinctive capability for serving the selected segments. Finally, they must choose those segments which are the most appropriate for the company.

There are various factors that must be considered while target market selection: Target marketing adapts a marketing mix for one or more segments recognized by market segmentation. Target marketing contrasts with mass marketing, which provides a single product to the entire market. Two important factors to consider when choosing a target market segment that include attractiveness of the segment and the fit between the segment and the firm's segment and the firm's objectives, resources, and capabilities objectives.

Attractiveness of a Market Segment

Some aspects should be considered when evaluating the attractiveness of a market segment such as size of the segment (number of customers and/or number of units), growth rate of the segment, competition in the segment, and brand loyalty of existing customers in the segment, attainable market share given to promotional budget and competitors' expenditures, expenditure, required market share to break even, sales potential for the firm in the segment, expected profit margins in the segment.

Incorrect targeting strategy results of wrong targeting strategy: Ineffective increase and targeting led to improper product offers, unsuitable marketing appeals, wrong pricing, and overemphasis on the brand name. It is stated that none of the company can offer single product to satisfy the

entire segment. Naturally, the firms were incapable to gather worthwhile information. As the firm did not target those segments and as they become unsuccessful to make product offers that were suitable for them, the end result may be poor. Market targeting assists businesses arise with tailor made products and marketing campaigns to fulfil the needs of the different market groups.

Benefit of Target Marketing

Target marketing induces huge benefit as it offers right products. A product manager, who properly targets his customers, knows their age range. Manager focuses on products that meet their needs, solve their problems or help them in some way. Companies that target their customers in marketing are also more informed about the prices customers will pay for products and services. Savvy marketers recognize the average income of their primary customers. They have a general idea whether their customers are price sensitive or not. Company who define its target market is more precise in marketing and advertising efforts. Its ideal customer dictates what strategies and tactics, company uses to reach them.

To sum up, Segmentation and targeting is precious tool for companies to increase market share. Market segmentation is a term that is related with the policy that assesses the national lease market as heterogenous in characteristics given divergence in demands. According to Jobber, segmentation is the identification of individuals or organisations with similar characteristics that have significant implications for the determination of marketing strategy. Thus, it supports that these divergent demands be classified into smaller homogeneous market responses that distinguish products and target markets in segments. Market targeting assists businesses come up with tailor-made products and marketing campaigns to address the requirements of the different market groups.

Companies must focus on the current market environment, buyer preferences, and competitor actions to launch their targeting strategy. Target marketing means to choose a market segment and direct marketing efforts toward that segment. The ideologies of target marketing are to recognize the major market segments, target one or more of these segments, and alter the marketing effort towards each particular segment. Strategies of segmentation and targeting allow the marketer to deliver a product within the target audience needs and wants (Pickton and Broderick, 2005: 373). It is a necessity to establish the needs and values of the target customers within each segment, in order for companies to promote their products, brands or services appropriately. Both have huge importance in marketing.