Market Segmentation and Product Differentiation

Lectures in Marketing
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What is Market Segmentation?

• Consumers purchase products and services for the perceived satisfactions they can derive from their possession/use.
• Many consumers desire the same or similar products at a given point in time.
• We define Markets in terms of products rather than satisfactions: The set of all actual and potential buyers of a product or service with the ability, willingness, and authority to make such purchases.

Market Segmentation

• Is the process of aggregating units of demand into relatively homogeneous groups on various segmentation variables.
• Zikmund ‘simplifies’ this definition by speaking of dividing a market into distinct groups of buyers with different needs, characteristics, or behavior, who might require separate products or marketing mixes.
Steps in Market Segmentation, Targeting, and Positioning

1. Identify segmentation variables and segment the market
2. Develop profiles of resulting segments
3. Evaluate attractiveness of each segment
4. Select the target segment(s)
5. Identify possible positioning concepts for each target segment
6. Select, develop, and communicate the chosen positioning concept

Levels of Segmentation in Markets

- **Mass Marketing**
  - Same product to all consumers
  - (no segmentation)

- **Concentrated, or Segment Marketing**
  - Different products to one or more segments
  - (some segmentation)

- **Differentiated, or ‘Niche’ Marketing**
  - Different products to subgroups within segments
  - (more segmentation)

- **Custom, or ‘Micro’ marketing**
  - Products to suit the tastes of individuals or locations
  - (complete segmentation)

Choosing Market Segments

- Distinguishing/stable characteristics
- Significant size
- Accessible with distribution & promotion
- Responsive (similar needs)
- Measurable potential

We need a **YES** response to each of these!
### Criteria for Effective Segmentation

| Measurable | • Size, purchasing power, profiles of segments can be measured. |
| Substantial | • Segments must be large or profitable enough to serve. |
| Accessible | • Segments can be effectively reached and served. |
| Differential | • Segments must respond differently to different marketing mix elements & actions. |
| Actionable | • Must be able to attract and serve the segments. |

### Bases for Segmenting Consumer Markets

- **Geographic**: Nations, states, regions, or cities
- **Demographic**: Age, gender, family size, or income
- **Psychographic**: Social class, lifestyle, or personality
- **Behavioral**: Occasions, benefits, uses, or responses
Bases Used for Consumer Market Segmentation

Bases for Segmentation of Consumer Markets:
- Demographic
  - Age
  - Sex
  - Race, etc.
- Psychographic
  - Activities
  - Interests
  - Opinions
- Socioeconomic
  - Occupation
  - Income
  - Social Class
- Geographic
  - Countries
  - Regions
- Geodemographic
  - Consumption Patterns
    - Heavy vs. Light
    - Occasion of use
    - Loyalty
- Behavioral Patterns
  - Type of store
  - Units purchased
  - Media habits
- Consumer Predispositions
  - Benefits sought from product
  - Product knowledge

Heavy and Light Users of Common Consumer Products

<table>
<thead>
<tr>
<th>PRODUCT (%) USERS</th>
<th>HEAVY HALF</th>
<th>LIGHT HALF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soups and detergents (84%)</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>Toilet tissue (95%)</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Shampoo (84%)</td>
<td>79%</td>
<td>21%</td>
</tr>
<tr>
<td>Paper towels (96%)</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>Cake mix (74%)</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>Cola (67%)</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>Beer (41%)</td>
<td>87%</td>
<td>13%</td>
</tr>
<tr>
<td>Dog food (30%)</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Bourbon (20%)</td>
<td>95%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Business Markets

- Personal Characteristics
- Geographic Characteristics
- Situational Factors
- Operating Characteristics
- Bases for Segmenting Business Markets
- Purchasing Approaches
Evaluating Market Segments

• Segment Size and Growth
  - Analyze sales, growth rates and expected profitability.

• Segment Structural Attractiveness
  - Consider effects of: Competitors, Availability of Substitute Products and, the Power of Buyers & Suppliers.

• Company Objectives and Resources
  - Company skills & resources relative to the segment(s).
  - Look for Competitive Advantages.

Market Targeting
Choosing a Market-Coverage Strategy

Company Resources

Product Variability

Product’s Stage in the Product Life Cycle

Market Variability

Competitor Marketing Strategies

Market Coverage Strategies

A. Undifferentiated Marketing

Company Marketing Mix 1

Company Marketing Mix 2

Company Marketing Mix 3

Segment 1

Segment 2

Segment 3

B. Differentiated Marketing

Company Marketing Mix

Segment 1

Segment 2

Segment 3

C. Concentrated Marketing

Company Marketing Mix
Positioning is the act of designing the company’s offering and image to occupy a distinctive place in the target market’s mind.

Step 3. Positioning for Competitive Advantage

- Product’s Position - the place the product occupies in consumers’ minds relative to competing products; i.e. Volvo positions on “safety”.

- Marketers must:
  - Plan positions to give products the greatest advantage
  - Develop marketing mixes to create planned positions
Steps to Choosing and Implementing a Positioning Strategy

- **Step 1.** Identifying a set of possible competitive advantages: Competitive Differentiation.
- **Step 2.** Selecting the right competitive advantage.
- **Step 3.** Effectively communicating and delivering the chosen position to the market.

Customer Perception Maps

- Show how target customers feel about various product attributes
- They can also be used to show perceptions of the amount of these attributes contained in current product offers.
- Strategically, they can help the firm determine optimal positions within markets.

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