MARKET SEGMENTATION
(Definition, Objectives, Advantages, Limitations)

The term segmentation was first coined by Wendell Smith in 1956. His idea was simple enough split up your customers and treat them differently; you will then be able to present customers with product and services more relevant to their needs. Market segmentation has been defined by Stanton as the process of taking the total heterogeneous market for a product and dividing it into several submarkets or segments, each of which tends to be homogeneous in all significant aspects.

Market segmentation is one of the most interesting and useful tools in marketing management. In modern economics, no company sells its products to individual customer because of mass production techniques. Goods and services are mass marketed.

But the problem is that the tastes and vents of the consumers vary- region to region, and even from person to person. There is no homogeneity. On the other hand, there is a great deal of diversity in regard to income, consumer psychographics, demography, family life style, social class, and cultural factor.

According to Kotler, market segmentation is the subdividing of market into homogeneous subsections of customers, where any subsection may conceivably be selected as a target market to be reached with a distinct marketing mix.

"Market Segmentation is the act of dividing a market into distinct groups of buyers who might require separate products and/or marketing–mixes. The company identifies different ways to segment the market, develops profiles of the resulting market segments and evaluates each segments' attractiveness." [According to Philip Kolter].

OBJECTIVES

Channel

Market segmentation lets you decide how to offer a product or service to each group of consumers for maximum convenience, so you can tailor your sales channels to the preferences of the members of each market segment. Someone who can afford your product and wants to buy it will make the purchase if it is convenient. A market segment made up of seniors may prefer direct in-home sales; business people might find meeting in your or their office more convenient. For less expensive items, a convenient retail location might be appropriate.

Promotion

Market segmentation in terms of promotion lets you target members of each group in terms of what is important to them, and the objective is to focus your promotional initiatives on those themes and issues. For a low-income market segment, you may run promotions focused on value. For a market segment of young singles, you might emphasize lifestyle ads and outdoor activities. For a segment made up of families, a kid-friendly approach is appropriate. As part of your promotional efforts, you would emphasize product features that appeal to the particular market segment.

Pricing

A key objective for market segmentation is determining what price different groups of consumers are willing to pay for your product. When you have divided your market into segments based on what people can afford to pay, you can focus on segments that can pay the lowest or the higher prices. For those segments that can afford more, you can offer additional features or a higher level of service. Market segmentation allows you to serve each segment at a price level its members can afford.

Product

Your product could be improved in various ways, but you don't want to spend money on extra features if they don't result in additional sales. Determining which features to add can be a market segmentation objective. When you separate your market into groups of similar customers, you can identify specific needs for each segment. If the group is large enough and you can satisfy its needs with an extra product feature, it makes sense to proceed and create a product that has greater appeal to that target market segment.

ADVANTAGES

Benefits to the customer: Segmentation benefits not only the marketer but the customer as well. It distinguishes one customer group from another within a given market. It helps the marketer concentrate on the fulfillment of the well defined needs of the specific segment. Now-a-days, segmentation has attained a high degree of sophistication.

Efficient and economic marketing efforts: Segmentation makes marketing efforts both efficient and economic. Marketers segment the market and try to fulfill the needs of that segment. It helps in designing the kinds of promotional devices that are effective from the view point of customers.

Marketing efforts are focused on the well defined needs of the segment. Thus, marketing efforts undertaken by the marketer become more productive. They help the marketer to evaluate the results of his marketing programme. Best time to introduce new products, advertising etc., could be easily determined.

Tapping a particular market: Segmentation enables the marketer to understand the needs of the customers and serve them well. Prediction of the likely response from each segment is possible. With homogeneous responses from each segment, marketer finds it easy to develop an appropriate marketing programme. By tailoring the marketing programmes to individual market segments, marketers perform their tasks effectively.

Proper choice of target market: The market for any product is made up of several segments. A market is the aggregate of consumers of a given product. Consumers are not a homogeneous lot. They differ a lot in their characters and buying behavior. Thus, many differing segments exist in a market. Market segmentation helps the marketer divide the heterogeneous market. It is possible to distinguish one customer group from another.

LIMITATIONS

- **Buyers often choose from a list of acceptable brands**. This is the fact that people alternate between the brands of their list, it would be incorrect to take into consideration and believe that a brand can be successfully positioned to appeal to a very narrow segment.
- The various brands may be indistinguishable in product form yet differ widely in market share. Therefore, no concept of differentiation among products is required to explain market success.
- Market segmentation can prove to be an expensive process for the producer and the marketer as well. From marketing point of view the marketer has to develop different marketing mixes for different segments. From production point of view, the producer producing in mass quantities is much cheaper than making variety of products.
- Markets are not made-up of segments with different wants because buyers of one brand buy other brands as well. This is because the same buyer may buy products in different segments of the market for different family members, or for different occasions or for a change, etc. Hence segmentation does not mean that those within a segment buy only in that segment.
- The markets examined by them were not heavily segmented as the differences between brands were too insignificant to matter.

Market Segmentation: Basis of Market Segmentation

Market segmentation is a marketing term that refers to aggregating prospective buyers into groups or segments with common needs and who respond similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another.

Market segmentation is an extension of market research that seeks to identify targeted groups of consumers to tailor products and branding in a way that is attractive to the group. The objective of market segmentation is to minimize risk by determining which products have the best chances for gaining a share of a target market and determining the best way to deliver the products to the market. This allows the company to increase its overall efficiency by focusing limited resources on efforts that produce the best return on investment (ROI).

Examples of Market Segmentation

Market segmentation is evident in the products, marketing, and advertising that people use every day. Auto manufacturers thrive on their ability to identify market segments correctly and create products and advertising campaigns that appeal to those segments.

Cereal producers market actively to three or four market segments at a time, pushing traditional brands that appeal to older consumers and healthy brands to health-conscious consumers, while building brand loyalty among the youngest consumers by tying their products to, say, popular children's movie themes.

Basis of Market Segmentation

(i) Gender

The marketers divide the market into smaller segments based on gender. Both men and women have different interests and preferences, and thus the need for segmentation.

Organizations need to have different marketing strategies for men which would obviously not work in case of females.

A woman would not purchase a product meant for males and vice a versa.

The segmentation of the market as per the gender is important in many industries like cosmetics, footwear, jewellery and apparel industries.

(ii) Age Group

Division on the basis of age group of the target audience is also one of the ways of market segmentation.

The products and marketing strategies for teenagers would obviously be different than kids.

- Age group (0 – 10 years) – Toys, Nappies, Baby Food, Prams
- Age Group (10 – 20 years) – Toys, Apparels, Books, School Bags
- Age group (20 years and above) – Cosmetics, Anti-Ageing Products, Magazines, apparels and so on

(iii) Income

Marketers divide the consumers into small segments as per their income. Individuals are classified into segments according to their monthly earnings.

The three categories are:

- High income Group

- Mid Income Group
- Low Income Group

Stores catering to the higher income group would have different range of products and strategies as compared to stores which target the lower income group.

Pantaloon, Carrefour, Shopper's stop target the high income group as compared to Vishal Retail, Reliance Retail or Big bazaar who cater to the individuals belonging to the lower income segment.

(iv) Marital Status

Market segmentation can also be as per the marital status of the individuals. Travel agencies would not have similar holiday packages for bachelors and married couples.

(v) Occupation

Office goers would have different needs as compared to school / college students.

A beach house shirt or a funky T Shirt would have no takers in a Zodiac Store as it caters specifically to the professionals.

TYPES OF MARKET SEGMENTATION

(a) Psychographic segmentation

The basis of such segmentation is the lifestyle of the individuals. The individual's attitude, interest, value help the marketers to classify them into small groups.

(b) Behaviouralistic Segmentation

The loyalties of the customers towards a particular brand help the marketers to classify them into smaller groups, each group comprising of individuals loyal towards a particular brand.

(c) Geographic Segmentation

Geographic segmentation refers to the classification of market into various geographical areas. A marketer can't have similar strategies for individuals living at different places.

Nestle promotes Nescafe all through the year in cold states of the country as compared to places which have well defined summer and winter season.

McDonald's in India does not sell beef products as it is strictly against the religious beliefs of the countrymen, whereas McDonald's in US freely sells and promotes beef products.

- Market segmentation seeks to identify targeted groups of consumers to tailor products and branding in a way that is attractive to the group.

- Markets can be segmented in several ways such as geographically, demographically, or behaviorally.
- Market segmentation allows a company to focus its resources on efforts that can be the most profitable.

A sports-shoe manufacturer might define several market segments that include elite athletes, frequent gym-goers, fashion-conscious women, and middle-aged men who want quality and comfort in their shoes. In all cases, the manufacturer's marketing intelligence about each segment enables it to develop and advertise products with a high appeal more efficiently than trying to appeal to the broader masses.

MARKET PLANNING

Market planning is the process of organizing and defining the marketing aim of a company and gathering strategies and tactics to achieve them. A solid marketing plan should consist of the company's value proposition, information regarding its target market or customers, a comparative positioning of its competitors in the market, promotion strategies, distribution channels, and budget allocated for the plan. All relevant teams in the organization should refer to its marketing plan.

Market Planning for Small Businesses

Over the last few decades, more individuals have been starting a journey as a small business entrepreneur. Unfortunately, many fail to reflect upon their marketing strategy and plan. Like other things in a project, marketing the organization is an essential decision that starts with a plan every time. In order to get noticed in the market with a unique and consistent promotional strategy, becoming knowledgeable about market planning and its facets is crucial.

Benefits to a Marketing Plan

The importance of a detailed marketing plan can't be overstated. A marketing plan:

- **Gives clarity about who your market is.** It's easier to find clients and customers if you know who they are.
- **Helps you craft marketing messages that will generate results.** Marketing is about knowing what your product or service can do to help a target market. Your messages need to speak directly your market.
- **Provides focus and direction.** Email, social media, advertising, guest blogging, direct mail, publicity, and on and on. With so many marketing choices, you need a plan for determining the best course of action for your business.

Stages of Market Planning

The first stage of market planning involves sales projections and evaluations of past promotional implementations to assess their effectiveness. The process of analyzing a product allows the company to identify which areas of the plan should carry a heavier focus or which areas should be adjusted. The evaluation not only involves evaluating the company's competitive position in its respective market but also to implement new strategies for its business goals.

The second stage is to organize the marketing objectives and strategies. It is crucial here to establish the relationships between the proposed activities so that the plan can be carried out efficiently.

Top Market Planning Concepts

Although there are a number of marketing planning concepts to be considered, mentioned below are a few important aspects that should be included:

Market Segmentation and Target Markets

Knowing who makes up the market the product or service plays in is crucial, yet the importance of this aspect is often overlooked. Market segmentation involves assessing the whole population that could be potential customers of your product and then segmenting them based on varying criteria. Some examples of aspects to filter for are purchase behavior, psychographics, age, average income, and more.

After the market's been segmented, the company must choose the group that it believes its product can best serve and is within the budget to advertise to. This segment then forms your target market. It is generally recommended for businesses to have one target market and have secondary ones if they see fit.

To illustrate, a company that sells colored contacts may have a primary target market of makeup artists in the film and theater industry. However, they may find that there is significant revenue to be found in entering more mainstream channels and marketing towards women in their twenties who wish to experiment with new eye colors on special occasions. They would then spend the majority of their resources marketing to their primary target market, but also allocate some marketing budget to the latter segment for additional revenue.

The main reason why market segmentation and targeting is important is that a company should always be focusing their resources on the most profitable group of customers and knowing which group that is a prerequisite.

Budget

Budgeting may be the most important term in marketing planning when it comes to execution. Often, in order to secure funds from top management or banks, sufficient proof of your advertising plan's success is needed. It requires accurate forecasting of return generated for individual advertising expenditures. It is important that returns are not overestimated to avoid spending too much and running out of money early on.

Marketing Mix

The marketing mix is a combination of elements that influence customers to purchase a product. The marketing mix includes four main factors: Product, Price, Place, and Promotion. Product refers to either the tangible good that your business offers, or the intangible good, referring to services. Key decisions made under this umbrella are branding, product design, package and labeling details, warranties, and more.

Price can quite simply be the quantitative price the company's customers must pay to acquire its product. However, thorough market plans will also consider other sacrifices a customer must make, such as travel time, shipping costs, or research time before they find the product. Customer perceived value is also a key consideration when it comes to price. Key decisions under this umbrella include price-setting, pricing strategies, discounts, accepted payment methods, and more.

Place refers to where customers can contact the business and purchase its products. Providing convenience and access to the company's customers is the goal. Key decisions under this umbrella include distribution, channels, partnerships, locations, transportation, and logistics.

Promotion covers all the marketing communications the company undertakes to make its product known and the shape the customers' image of its product. Key decisions here involve promotional mix, message content, message frequency, media strategies, and more.

Customer Relationship Management (CRM)

Customer relationship management is a key factor in maintaining loyalty after a company has achieved a sustainable number of customers. There are numerous software and solutions on the market to handle CRM for a company. For small businesses, however, keeping such activities in-house may be recommended to keep the company lean. Things such as offering warranties and return policies can help keep customers satisfied and let them know that the company cares about their use of your product post-purchase.

MARKETING PLAN

A marketing plan may be part of an overall business plan. Solid marketing strategy is the foundation of a well-written marketing plan so that goals may be achieved. While a marketing plan contains a list of actions, without a sound strategic foundation, it is of little use to a business.

A marketing plan is a comprehensive document or blueprint that outlines the advertising and marketing efforts for the coming year. It describes business activities involved in accomplishing specific marketing objectives within a set time frame. A marketing plan also includes a description of the current marketing position of a business, a discussion of the target market and a description of the marketing mix that a business will use to achieve their marketing goals. A marketing plan has a formal structure, but can be used as a formal or informal document which makes it very flexible. It contains some historical data, future predictions, and methods or strategies to achieve the marketing objectives. Marketing plans start with the identification of customer needs through a market research and how the business can satisfy these needs while generating an acceptable return. This includes processes such as market situation analysis, action programs, budgets, sales forecasts, strategies and projected financial statements. A marketing plan can also be described as a technique that helps a business to decide on the best use of its resources to achieve corporate objectives. It can also contain a full analysis of the strengths and weaknesses of a company, its organization and its products.

The marketing plan shows the step or actions that will be utilized in order to achieve the plan goals. For example, a marketing plan may include a strategy to increase the business's market share by fifteen percent. The marketing plan would then outline the objectives that need to be achieved in order to reach the fifteen percent increase in the business market share. The marketing plan can be used to describe the methods of applying a company's marketing resources to fulfill marketing objectives. Marketing planning segments the markets, identifies the market position, forecast the market size, and plans a viable market share within each market segment. Marketing planning can also be used to prepare a detailed case for introducing a new product, revamping current marketing strategies for an existing product or put together a company marketing plan to be included in the company corporate or business plan.

Outline

A marketing plan should be based on where a company needs to be at some point in the future. These are some of the most important things that companies need when developing a marketing plan:

Market research: Gathering and classifying data about the market the organization is currently in. Examining the market dynamics, patterns, customers, and the current sales volume for the industry as a whole.

Competition: The marketing plan should identify the organization's competition. The plan should describe how the organization will stick out from its competition and what it will do to become a market leader.

Market plan strategies: Developing the marketing and promotion strategies that the organization will use. Such strategies may include advertising, direct marketing, training programs, trade shows, website, etc.

Marketing plan budget: Strategies identified in the marketing plan should be within the budget. Top managers need to revise what they hope to accomplish with the marketing plan, review their current financial situation, and then allocate funding for the marketing plan.

Marketing goals: The marketing plan should include attainable marketing goals. For example, one goal might be to increase the current client base by 100 over a three-month period.

Marketing Mix: The marketing plan should evaluate the appropriate marketing mix. This includes setting up the marketing 4 P's the product, price, place, and promotion. These four elements are modified until the best combination have been found that will cater the needs of the product's customer that would result to the maximum profitability of the company.

Monitoring of the marketing plan results: The marketing plan should include the process of analyzing the current position of the organization. The organization needs to identify the strategies that are working and those that are not working.

PURPOSE

One of the main purposes of developing a marketing plan is to set the company on a specific path in marketing. The marketing goals normally aligns itself to the broader company objectives. For example, a new company looking to grow their business will generally have a marketing plan that emphasizes strategies to increase their customer base. Acquiring marketing share, increasing customer awareness, and building a favorable business image are some of the objectives that can be related to marketing planning. The marketing plan also helps layout the necessary budget and resources needed to achieve the goals stated in the marketing plan. The marketing plan shows what the company is intended to accomplish within the budget and also to make it possible for company executives to assess potential return on the investment of marketing dollars. Different aspects of the marketing plan relate to accountability.

The marketing plan is a general responsibility from company leaders and the marketing staff to take the company in a specific direction. After the strategies are laid out and the tasks are developed, each task is assigned to a person or a team for implementation. The assigned roles allow companies to keep track of their milestones and communicate with the teams during the implementation process. Having a marketing plan helps company leaders to develop and keep an eye on the expectations for their functional areas. For example, if a company's marketing plan goal is to increase sales growth then the company leaders may have to increase their sales staff in stores to help generate more sales.

The marketing plan offers a unique opportunity for a productive discussion between employees and leaders of an organization. It provides good communication within the company. The marketing plan also allows the marketing team to examine their past decisions and understand their results in order to better prepare for the future. It also lets the marketing team to observe and study the environment that they are operating in.

Marketing planning aims and objectives

Though it’s not clear, behind the corporate objectives, which in themselves offer the main context for the marketing plan, will lie the “corporate mission,” in turn provides the context for these corporate objectives. In a sales-oriented organization, the marketing planning function designs incentive pay plans to not only motivate and reward frontline staff fairly but also to align marketing activities with corporate mission. The marketing plan basically aims to make the business provide the solution with the awareness with the expected customers.

This “corporate mission” can be thought of as a definition of what the organization is, or what it does: “Our business is …”. This definition should not be too narrow, or it will constrict the development of the organization; a too rigorous concentration on the view that “We are in the business of making meat-scales,” as IBM was during the early 1900s, might have limited its subsequent development into other areas. On the other hand, it should not be too wide or it will become meaningless; “We want to make a profit” is not too helpful in developing specific plans.

The marketing objectives must usually be based, above all, on the organization’s financial objectives; converting these financial measurements into the related marketing measurements. He went on to explain his view of the role of “policies,” with which strategy is most often confused: “Policies are rules or guidelines that express the ‘limits’ within which action should occur. “Simplifying somewhat, marketing strategies can be seen as the means, or “game plan,” by which marketing objectives will be achieved and, in the framework that appears here, are generally concerned with the 8 P’s. Examples are:

Price: The amount of money needed to buy products

Product: The actual product

Promotion (advertising): Getting the product known

Placement: Where the product is sold

People: Represent the business

Physical environment: The ambiance, mood, or tone of the environment

Process: The Value-added services that differentiate the product from the competition (e.g. after-sales service, warranties)

Packaging: How the product will be protected

The most important element is, the detailed plans, which spell out exactly what programs and individual activities will carry at the period of the plan (usually over the next year). Without these activities the plan cannot be monitored. These plans must therefore be:

Clear: They should be an unambiguous statement of 'exactly' what is to be done.

Quantified: The predicted outcome of each activity should be, as far as possible, quantified, so that its performance can be monitored.

Focused: The temptation to proliferate activities beyond the numbers which can be realistically controlled should be avoided. The 80:20 Rule applies in this context too.

Realistic: They should be achievable.

Agreed: Those who are to implement them should be committed to them, and agree that they are achievable. The resulting plans should become a working document which will guide the campaigns taking place throughout the organization over the period of the plan. If the marketing plan is to work, every exception to it (throughout the year) must be questioned; and the lessons learnt, to be incorporated in the next year's.

Content of the marketing plan

A Marketing Plan for a small business typically includes Small Business Administration Description of competitors, including the level of demand for the product or service and the strengths and weaknesses of competitors

1. Description of the product or service, including special features
2. Marketing budget, including the advertising and promotional plan
3. Description of the business location, including advantages and disadvantages for marketing
4. Pricing strategy
5. Market Segmentation

Medium-sized and large organizations

The main contents of a marketing plan are:

1. Executive Summary
2. Situational Analysis
3. Opportunities / Issue Analysis: SWOT Analysis
4. Objectives
5. Marketing Strategy

6. Action Program (the operational marketing plan itself for the period under review)
7. Financial Forecast
8. Controls