
Topic 10 ▶ Identifying and Selecting Market Segment

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Explain the level of market segmentation;
2. Describe the market segmentation concept and target market;
3. Identify the bases or the variables that can be used for market segmentation;
4. Assess the characteristics of an effective market segment; and
5. Review the patterns of the target market selection.

▶ INTRODUCTION

A market is made up of individual consumers and organisational consumers who want and are able to purchase a product. We also know that every consumer has his own different needs and wants. The way the consumer performs the purchase, products he buys, the place he shops and the conditions that influenced his purchasing decision is different from one person to another. Therefore, it is more effective if market behaviour is segregated into smaller groups. Usually, these small groups are easier to be studied. This in turn assists the company to generate and manage the marketing strategies that match the needs and wants of the different groups.

Nowadays, it is a normal practice for a company to target its market where the company will select certain groups to be their customers. Every marketing activity and the company's efforts will be formulated and focused based on the needs and wants of a particular group.

A company needs to know the process of segmentation and the segmentation bases prior to conducting market targeting. The company also needs to know the characteristics of an effective segment so that all its marketing efforts are effective. In this topic, we will discuss the issues of segmentation as well as target market.

10.1 LEVEL OF SEGMENTATION

Before we discuss segmentation and market target, we need to first learn about the segmentation level that we may implement in a market. Market segmentation is a process of segregating a big market into smaller groups. The groups will have the same characteristics such as age, gender, culture, occupation and etc.

These small groups are called market segment. Since the customers in a segment have the same characteristics, we can assume that they also have the same needs, wants and also purchasing behaviour.

Market segmentation can be implemented at different levels, for example:

- (a) Mass marketing;
- (b) Segment marketing;
- (c) Niche marketing; and
- (d) Individual marketing.

10.1.1 Mass Marketing

In this type of marketing, the company assumes all the consumers in the market as its consumers, and all of them have the same taste, the same purchasing behaviour, and the same needs and wants. Based on this assumption, the company takes the market as one big market that does not need to be segregated into smaller groups. In this case, there is no market segmentation implemented. The company also assumes that by producing only one product is sufficient to the market.

In this case, normally the company will use a distribution system known as mass distribution, as well as mass promotion, and will perform mass production to market the one product.

This level of segmentation was practiced by Ford Motor Corporation 50 years ago, where the company only produced a single car model known as T-Ford Model. The Ford Company only offered one product to every consumer where the design was the same and each was black in colour. Figure 10.1 shows the photograph of the model.



Figure 10.1: T-Ford model car
Source: <http://www.earodrome.org>

The Coca-Cola Company once also had practiced this level of segmentation where at the beginning of its business the company only offered Coca-cola drink that tastes the same in a 6.5oz bottle only. Nowadays, it is quite hard for a company to practice this level of segmentation as there are too many competitors and that means the consumers also have more choices to be made.

10.1.2 Segment Marketing

In this type of marketing, the company assumes that the consumers can be segregated into several market segments. As discussed previously, these segments can be segregated according to a few basics such as **income**, **geographical area** and **race**. Since the market consists of several segments then the company assumes that the needs and wants of the market are also different.

Every segment requires different marketing mix as well as having different consumer behaviour. Segment marketing is better than the “mass marketing” in the sense that every marketing activity and programme can be tailored to the needs and wants of each segment. Therefore, all the marketing activities implemented are more accurate as compared to using the mass marketing.

10.1.3 Niche Marketing

Niche marketing is where the company only focuses all the marketing mix strategy on one market segment. For example, Mercedes only produces automobile for the luxury automobiles market, Anakku Corporation only produces products for baby needs and The Avon Company used to produce only cosmetics products specialised for the women. Since the company only focuses its attention to one segment, usually the company has exceptional expertise in fulfilling the needs and wants of the particular segment. The company also usually is well-informed of its consumers’ behaviour, as well as being the expert in producing the products for the segment.

Since only one segment is selected, then the segment should be the segment that has a high purchasing power (willing to pay more), big enough for its size and has a good growth rate.



ACTIVITY 10.1

In your opinion, what are two advantages of Mercedes automobiles compared to other automobiles?

10.1.4 Individual Marketing

Under this concept, the company implements its marketing activities based on the personal needs and wants of an individual. The products are manufactured based on the individual’s taste. Individual marketing is also known as one-to-one marketing or tailor-made marketing.

In the industry or organisation market, there is such practice as the industrial consumers are small in numbers but purchase in large quantity. There are also different purchasing specifications from one another. For example, in the individual market such as clothing boutique, Jimmy Choo shoes boutique (which is well-known for its tailor-made shoes with demands from celebrities like the

late Princess Diana) and other boutiques provide specialised and specific services to each of its customers.

10.2 INDIVIDUAL CONSUMERS' MARKET SEGMENTATION BASES

Normally, the segmentation bases frequently exercised to segment an individual market is based on the geographical area, demographic psychographic and also based on the consumers' behaviour variables. Under this concept, the company will implement its marketing activities based on each individual's needs and wants. The products produced are also based on the individuals. The individual marketing is also known as one-to-one marketing or tailor-made marketing.

In the industry or organisational market, there is such practice since the industrial consumers are small in numbers but purchased in large quantity. They also have different purchasing specifications from one another.

10.2.1 Segmentation Based on Geographical Factor

Through this approach, a huge market may be segregated into smaller segments such as a country, state, district, zone, city and even a housing estate. For example in Malaysia, there are locations such as the Klang Valley area, East Coast area, North area and so on and so forth. Usually this approach is used by retailing companies such as Makro, Carrefour, Giant Supermarket and so on. They segregated their market, based on geographical areas as previously described.

10.2.2 Segmentation Based on Demographic Factor

Demography is a statistic data (which is a measurable data) of a population. The data will usually explain and illustrate a population. Among the demographical data is the age, gender, occupation, race, religion, education, social class, family size and also a life cycle of a family. Usually, these demographics bases are the most popular data used for segmentation of a market. Perhaps, it is because they are easy to obtain and to measure, and more practical compared to other fundamentals.

Demographic data has a close relation to the purchasing behaviour of a consumer. Children toy companies usually segment their products based on the children's age, such as 1–3 years old, 10–15 years old and so on. On the other hand, the clothes, magazines and cosmetics manufacturing companies usually

use gender (male or female) as the basis to produce their products. Automobiles companies, furniture companies, clothes manufacturing companies and service companies like hotels and airlines usually produce and offer their products or services based on the income of their customers, as well as their social class.

Some writers choose social class as a segmentation based on psychographic. However, **Philip Kotler** puts social class as segmentation basis based on demographic data. To make it easier and diminish doubts, it is better to put social class under the demographic basis.

10.2.3 Segmentation Based on Psychographic Factor

Based on this segment, the consumer is segregated into several groups based on lifestyle, personality and life value of a consumer.

Lifestyle is the way a consumer lives his life and how he spends his money daily (Figure 10.2). Each consumer must have their own lifestyle. Examples of lifestyle are “adventurous” lifestyle (lifestyle that likes adventures or trying something new), “me too generation” lifestyle (lifestyle that likes to copy others), “poverty of time” lifestyle (a very busy lifestyle with very little time for rest), beauty conscious lifestyle, comfort and health conscious lifestyle and various other lifestyles.

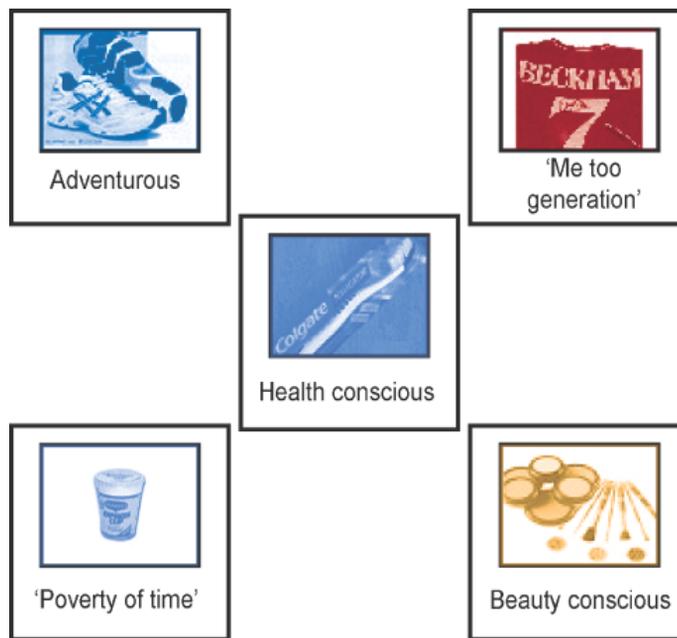


Figure 10.2: Types of lifestyle

Source: Adapted from <http://www.google.com>

For adventurous lifestyle, a company can come up with products such as extreme sports equipment, four-wheel drive vehicle, mountain climbing bicycles, scuba diving equipment and many more. Usually, the users who want to live this kind of lifestyle are those users who have a high income, young, and possess a good level of education. They like to try new things and are not afraid to take risk. If the company produces a new product, this group will be the best initial market target.

Personality on the other hand, explains characters of the consumers such as being shy, aggressive, active, independent, conservative, confident and many more. The companies that usually use this segmentation are manufactures of perfume, clothes and also cosmetics. Clothes that are bright and colourful are usually meant for consumers who are active and aggressive.

10.2.4 Segmentation Based on Consumer Behaviour



SELF-CHECK 10.1

What are the factors considered by a consumer when choosing a product?

Behavioural segmentation is also the most frequently used bases other than the segment based on demography. Usually, consumer goods company will use this basis, mostly because it produces a lot and different types of product. Among the segmentation basis are as follows:

(a) Use Occasion

Consumers can be segregated into their own groups based on when they use and require a certain product. For example, in the airline industry, consumers can be segregated into organisational consumers (use the airline for business trips), and also the consumers who use the airline for vacation or visiting.

Organisational users require a different service from the vacationing users. They require accurate flight schedule, frequent, communication equipment in the aeroplane such as the fax machine, telephone internet and many more. They are also willing to pay higher price for the service they enjoy. Vacationing consumers are more attracted to cheap price and does not require business class services.

(b) **Benefit Sought**

This is the most favoured and most used behavioural segmentation basis by consumer goods company. This basis is based on the assumption that the consumers buy and use a product because of the benefit they gain from it. For example, toothpaste users can be segregated into consumers who buy to whiten their teeth, consumers who buy to eliminate bad breath, to protect teeth from decaying and also to prevent gum swelling. Based on these, Colgate Palmolive produces many types and flavours of toothpaste. Meanwhile, automobile companies produce cars for customers who wish for driving comfort, speed and performance, fuel saving and those who emphasise on safety.

(c) **User Status**

Consumers can be segregated into their own status:

- (i) Non-user;
- (ii) Potential user;
- (iii) First-time user; and
- (iv) Loyal user or regular customer.

(d) **User Rate**

Based on this, the users may be segregated into several groups such as the users who use the product a lot or heavy users, or consumers who use some products or light users. Light users prefer products in small package, while the heavy users prefer products with a large packaging. Usually, the heavy users are from large families and the light users are the bachelors.

(e) **Loyalty**

Users are also segregated based on their loyalty level against certain brand of product, which are as follows:

- (i) Hard-core loyals. Users in this class usually only maintain one brand and does not switch products;
- (ii) The Split loyals are the users who use two or three brands. If the favourite brand is not available, they will opt for brand number two or three;
- (iii) Shifting loyals are the group of consumers who like to change from one brand to the other after using it for a few times; and

- (iv) Switchers are consumers who are not loyal to any brand. Usually, they will change to another brand according to their preferences.

For users who are disloyal, the company needs to make an attractive promotion to get their attention and maintain the brand. Without an effective promotion programme, the consumers will most definitely switch to another product. Advertisements programme is very important to create and build user loyalty. Without a good advertisement programme, the consumer will not have any permanent memory or feeling for a certain brand.

(f) **Buyer Readiness Stage**

Based on this basis, the consumers can be segregated into several levels of buyer readiness to buy a product. These consumer groups are:

- (i) Unconscious consumers who are not aware of the existence of a product in the market;
- (ii) Conscious consumers, are the consumers who know that the product already existed in the market. At this level, the users may be used to hearing about the brand but are yet to buy or use the product;
- (iii) Informed consumers group, who are the consumers who know some information on the product. At this level, the consumers already has a lot of information about the product but has no desire yet to purchase it;
- (iv) Interested user group, who are the consumers that already have the information of the product and are also interested to purchase the product compared to other product; and
- (v) Consumers who really want to buy. Given some motivation to purchase such as handing gifts as well as giving special offer, price discount and other programmes of Sales Promotion, this consumer group will make the purchase and use the product.

With the description of these segmentation bases, hopefully you now understand that a market can be segregated into many groups and there are several bases that can be used for that purpose. Basically, the smaller groups and with defined segregation, is easier to be understood. Understanding the consumers is the basis of a good and effective marketing activities implementation (product production, promotion programme and product distribution) as well as the basis to make a business successful.

10.3 SEGMENTATION BASES FOR INDUSTRIAL/ ORGANISATIONAL CONSUMERS

The industrial consumer market can also be segmented into smaller groups. Among the bases that can be used for the market segmentation are:

(a) Based on Geographical Areas

The industrial consumer market can be segregated into smaller groups based on the geographical, as practiced in the individual consumer market. Here, the market can be divided into:

- (i) Country;
- (ii) States;
- (iii) Districts;
- (iv) Zone;
- (v) North area; and
- (vi) South area.

(b) Based on Business Type

Here, the industrial consumers can be grouped or segregated into their own group based on their business type. For example furniture companies, universities, food outlets, pharmacies, construction companies, shipping companies and many more. Business type is the segmentation basis that is the common and easiest to use, probably because it is easier and more practical to use.

(c) Based on Company Size

Company size is usually categorised into small, medium and large based on two factors, which are the number of sales/purchase and the number of company staff. If the number of sales/purchase is high, then we can say that the company is large in size. Companies that have a large number of staff are also categorised as large-sized companies. Normally, in companies where their sales/purchases are high/large size will also have a large number of staff.

Industrial consumers can also be categorised by their size. If the size is large, then they are known as the major account customers. If it is small, then they are the minor account customers.

**EXERCISE 10.1**

1. Elaborate on all four segmentation levels.
2. How does a company identify attractive market segmentations?

10.4**CHARACTERISTICS OF A GOOD OR EFFECTIVE MARKET SEGMENT**

In the business world, a company usually has limited abilities. The company is not able to fulfil all the needs and wants of a big market. The company needs to select certain segments to focus and give more attention to. There are several guidelines that can be used by a company to select a good and effective market segment. These guidelines are based on the characteristics of a good market segment. These characteristics are:

(a) Measurable

The segment can be measured in terms of its size, purchasing power and other traits of the segment.

(b) Accessibility

Every marketing programme and activities that will be performed can be accessed by the selected market segment. Some of the segments available are quite difficult to be accessed. For example, are the nurses in a particular hospital working night shifts? This market segment is quite difficult to provide information through promotion programme.

Another example is the group of population who lives in poverty. If you want to build a mini market that sells cheap products to this segment, you may not be able to find a suitable location. This is because they live in remote areas, do not own any means of transportation, do not read the newspapers due to lack of money and they are also scattered because they do not live in a particular area. The market segment is deemed inaccessible.

(c) **Sustainability**

The market segment chosen should be big enough to generate profitability to the company or at least cover the production cost of the company operation. The market size can be measured in terms of these factors:

(i) **Number of Customer**

If the market segment has a large number of customers, then it may be said that the segment is large.

(ii) **Purchasing Power**

If the market segment has high income consumers with a high purchasing power, then we may assume that the segment is large.

(d) **Actionability**

All the marketing activities can be performed and fulfil the wants and needs of the market segment.

10.5 MARKET TARGETING

Normally after the segmentation, the marketing of a company will select the market segment that has been segmented previously. The market selection is called market targeting. The segment selection has to fulfil the criteria or the characteristics of an effective segment as discussed in the previous section. Market targeting is important as usually a company will have limited abilities, technology, financial resources, knowledge and so on. It is easier for the company to pay attention to the target market and with that understand better the needs and wants of its customers.

After segmenting and evaluating every segment, a marketing company can consider five patterns of target market selection, which are:

(a) **Single Segment Concentration**

The company only focuses on one market segment. For example in Malaysia, there is the Perodua Company which only focuses on the market of compact cars. This segment is also sometimes termed as niche market. Since the company only focuses on one market, the company is able to be the expert in the product manufacturing, distribution and promotion. The company also can enjoy economies of scale from production, distribution as well as promotion as a result of the focused or specialisation to only one market segment.

However, the company will have a very high risk as it only relies on one segment. If consumers in this segment change their interest and no longer buy cars from the company, then the company will have no other products that can be sold to the consumers.

(b) **Selective Specialisation**

The company only focuses on several segments (selective specialisation). Every segment is different from the other and the needs and wants are also different. For example in Malaysia, PROTON company manufactures cars based on compact cars market segments, sedan (family) cars market segment and also medium luxury cars market segment. For the compact cars market, the company produces Iswara Aeroback, while the company produces Proton Wira. Persona and Waja for the family cars segment. For medium luxury cars market, PROTON produces Proton Perdana. Each product is suitable only for a particular market segment.

(c) **Product Specialisation**

Here, the company only focuses on the production and distribution of one product. Even though it is only one product, it is meant for several market segments. For example, is the microscope manufacturing company that produces only microscopes. Even though only one microscope is manufactured; they are sold to universities, schools, research laboratories, medical laboratories and many more. For each of the above consumers, the company may produce a different specification of microscopes suitable to their needs and wants. Here, the company only produces microscopes instead of other laboratory equipment.

Since the company only produces one product, then it has a good expertise and the products produced usually have very good quality. The only problem is when there are alternative products or when a new technology replaces the needs for that product. For example, Kodak corporation company has to seek other opportunities as the camera film has been replaced with a new product – the digital camera.

(d) **Market Specialisation**

Here, the company only focuses on one type of market. For example, companies that produce a variety of products specialised only for women. The companies produce clothes, jewellerys, health care and cosmetics as well as other products for women.

(e) **Full Market Coverage**

Here, the company will attempt to provide the services and focus on all the consumer groups or segments in a market. For example, the IBM Corporation company that produces all types of computers for the use of industrial consumers and also individual consumers. For IBM, all the computer users are their market. The General Motors Corporation (GM) in USA is also one example of this pattern. GM Company is the biggest automobile manufacturer in the world and the company produces all types of automobile for the market. It produces passenger cars, sport cars, luxury cars, multi-purpose vehicles, vans, four-wheel drive vehicles, lorries, buses and also pick-up trucks.

The Coca-Cola company that is part of the beverage industry is also an example. The company produces a variety of soft drinks with numerous taste using different brands such as Coke, Dr. Pepper, Cherry Coke, Diet Coke, Seasons (soft drink with various flavours in Malaysia such as buah kundur, guava, chrysanthemum tea and many more), and other brands in the world. The company also produces drinks for athletes, fruit juices and mineral water.

Usually the companies that use this type of market specialisation are global companies that have businesses in many countries around the world. The companies have good financial resources and are able to produce many products for all segments in the market.



EXERCISE 10.2

1. List the four segmentation bases that can be used for the individual consumer market.
2. What are the characteristics of a good market segment?
3. Explain the processes involved when a company wants to change its marketing concept from mass marketing to segment marketing.

SUMMARY

- In this topic, we have discussed extensively about the characteristics of a market.
- A large market can be segregated into smaller groups that are easier to understand.
- There are many bases that can be used to segregate a market, for example the basis of geography, demography, sought benefits and many more.
- We also learned about the market targeting and the patterns of market focus.
- Market targeting is a basic concept needed to be understood in the marketing field and also understood by the business owners.
- By focusing on a segment, indirectly we are able to better understand our customers.
- Understanding consumers is fundamental to customer satisfaction, where it in turn allows the company to profit and also ensure the company is able to sustain in a business.

KEY TERMS

Consumerism behaviour	Mass marketing
Demographic factor	Niche marketing
Geographical factor	Psychographic factor
Individual marketing	Segment marketing
Industrial/organisational consumers	Segmentation
Market segment	