Market Segmentation

According to Lamb, Hair & McDaniel, (2011):

“Market segment is a subgroup of people or organizations that share one or more characteristics that make them have similar product needs. At one end, we can define each person and organization in the world as a market segment, because each one is unique. At the other end, we can define the entire consumer market as a large market segment, and the business market as another. All people have some shared characteristics and needs, just like all organizations”.

From a marketing perspective, we can refer to market segments as an intermediate point between both extremes. The process of dividing a market into significant, relatively similar and identifiable segments or groups is known as “market segmentation”. Its purpose is to allow the marketer to adapt marketing mixes to meet the needs of one or more specific segments.

Bases for Segmenting Consumer Markets

Consumer goods companies typically use one or more of the following features to segment markets:

- **Geography:** segment markets by country or region, market size, market density or climate.

- **Demographics:** age, gender, income, ethnic origins and family life cycle.

- **Psychography:** personality, motifs, lifestyles and geodemography.

- **Benefits sought:** grouping customers into market segments based on the benefits they are looking for from the product

- **Usage rate:** divides a market by the amount of product bought or consumed.

Categories vary with the product, but they are likely to include some combination of the following: former users, potential users, first-time users, light or irregular users, medium users, and heavy users.

Steps in Segmenting a Market

The purpose of market segmentation, both consumer and business, is to identify marketing opportunities.

1. **Select a market or product category for study:**
   Define the market or general product category to be studied. It can be a market in which the company already competes, a new but related product market or category or a whole new one. For example, Anheuser-Busch analyzed the beer market in detail before introducing Michelob Light and Bud Light. Anheuser-Busch also carefully studied the salty snack market before introducing the Eagle brand.

2. **Choose a basis or bases for segmenting the market:**
   This step requires managerial vision, creativity and market knowledge. There are no specific procedures for selecting segmentation variables.

3. **Select segmentation descriptors:**
   After choosing one or more bases, the marketer must select the descriptors, which identify the specific segmentation variables to use. For example, if a company selects demographics as a basis for segmentation, it can use age, occupancy and income as descriptors. A company that chooses usage targeting as the basis must decide whether to target sizable users or lightweight users, or those who are not users.

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4. **Profile and analyze segments:**
   A profile should include, with respect to the segment: its size, expected growth, frequency of purchase, current use of the brand, loyalty to the brand and long-term sales, and potential profits. This information can be used to classify potential market segments according to the opportunity to obtain profits, risk, consistency with respect to mission and organizational objectives and other key factors.

5. **Select target markets:**
   Target market selection is not a part but a natural result of the segmentation process. It is an important decision that influences and often directly determines the marketing mix of the company.

6. **Design, implement and maintain appropriate marketing mixes:**
   The marketing mix can be described as product, square (distribution), promotion and price strategies, designed to create mutually satisfactory exchange relationships with target markets.