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## MARKET SEGMENTATION: A CONCEPTUAL FRAMEWORK

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**Abstract:** *The more a marketing paradigm evolves, the more long-term relationship with customers gains its importance. Market Segmentation, pursues long-term relationship with profitable customers. It can be a starting point of relationship management to understand and measure the true value of customers since marketing management as a whole is to be deployed toward the targeted customers and profitable customers, to foster customers' full profit potential. The term market Segmentation referring to the aggregating of prospective buyers into groups (segments) that have common needs and will 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. Dividing a market into smaller groups of Buyers who have distinct needs, characteristics or behavior and who might require separate products or marketing mixes.*

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## **INTRODUCTION**

The more a marketing paradigm evolves, the more long-term relationship with customers gains its importance. Market Segmentation, pursues long-term relationship with profitable customers. It can be a starting point of relationship management to understand and measure the true value of customers since marketing management as a whole is to be deployed toward the targeted customers and profitable customers, to foster customers' full profit potential. The term market Segmentation referring to the aggregating of prospective buyers into groups (segments) that have common needs and will 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. Dividing a market into smaller groups of Buyers who have distinct needs, characteristics or behavior and who might require separate products or marketing mixes.

**Philip Kotler's Definition Market Segmentation Is Subdividing Of Market Into Homogeneous Sub Set Of Customers Where Any Subset May Conceivably Be Selected As Marketing Target With To Be Reached With Essays and Term Papers**

### **Criteria for selecting Market Segments**

**Measurable** : A segment should be measurable. It means you should be able to tell how many potential customers and how many businesses are out there in the segment.

**Accessible**: A segment should be accessible through channels of communication and distribution like: sales force, transportation, distributors, telecom, or internet.

**Durable**: Segment should not have frequent changes attribute in it.

**Substantial**: Make sure that size of your segment is large enough to warrant as a segment and large enough to be profitable

**Unique Needs**: Segments should be different in their response to different marketing efforts (Marketing Mix).

## **BASES FOR CONSUMER MARKET SEGMENTATION**

There are number of variables involved in **consumer market segmentation**, alone and in combination. These variables are:

- Geographic variables
- Demographic variables
- Psychographic variables



- Behavioral variables

## **1. Geographic Segmentation**

In **geographical segmentation**, market is divided into different geographical units like:

- Regions (by country, nation, state, neighborhood)
- Population Density (Urban, suburban, rural)
- City size (Size of area, population size and growth rate)
- Climate (Regions having similar climate pattern)

A company, either serving a few or all geographic segments, needs to put attention on variability of geographic needs and wants. After segmenting consumer market on geographic bases, companies localize their marketing efforts (product, advertising, promotion and sales efforts).

## **2. Demographic Segmentation**

In **demographic segmentation**, market is divided into small segments based on demographic variables like:

- Age
- Gender
- Income
- Occupation
- Education
- Social Class
- Generation
- Family size
- Family life cycle
- Home Ownership
- Religion
- Ethnic group/Race
- Nationality

Demographic factors are most important factors for segmenting the customers groups. Consumer needs, wants, usage rate these all depend upon demographic variables. So, considering demographic factors, while defining marketing strategy, is crucial.



### **3. Psychographic Segmentation**

In Psychographic Segmentation, segments are defined on the basis of social class, lifestyle and personality characteristics.

Psychographic variables include:

- Interests
- Opinions
- Personality
- Self Image
- Activities
- Values
- Attitudes

A segment having demographically grouped consumers may have different psychographic characteristics.

### **4. Behavioral Segmentation**

In this segmentation market is divided into segments based on consumer knowledge, attitude, use or response to product. Behavioral variables include:

- Usage Rate
- Product benefits
- Brand Loyalty
- Price Consciousness
- Occasions (holidays like mother's day, New Year and Eid)
- User Status (First Time, Regular or Potential)

**Behavioral segmentation** is considered most favorable segmentation tool as it uses those variables that are closely related to the product itself.

## **BASES FOR BUSINESS MARKET SEGMENTATION**

**Business market** can be segmented on the bases consumer market variables but because of many inherent differences like

- Businesses are few but purchase in bulk
- Evaluate in depth
- Joint decisions are made

Business market might be segmented on the bases of following variables:



- **Company Size:** what company sizes should we serve?
- **Industry:** Which industry to serve?
- **Purchasing approaches:** Purchasing-function organization, Nature of existing relationships, purchase policies and criteria.
- **Product usage**
- **Situational factors:** seasonal trend, urgency: should serve companies needing quick order deliver, Order: focus on large orders or small.
- **Geographic:** Regional industrial growth rate, Customer concentration, and international macroeconomic factors.

## **ADVANTAGES OF MARKET SEGMENTATION**

There are several advantages of segmentation.

**1) Focus of the Company** – Segmentation is an effective method to increase the focus of a firm on market segments. If you have better focus, obviously you will have better returns. Numerous automobile companies have started focusing on small car segments. This is nothing else but a company changing its focus for better returns. Thus companies base their strategy completely on a new segment which increases its focus and profitability.

**2) Increase in competitiveness** – Naturally, once your focus increases, your competitiveness in that market segment will increase. If you are focusing on youngsters, your brand recall and equity with youngsters will be very high. Your market share might increase and the chances of a new competitor entering might be low. The brand loyalty will definitely increase. Thus market segmentation also increases competitiveness of a firm from a holistic view.

**3) Market expansion** – Geographic segmentation is one type of segmentation where expansion is immediately possible. If you have your market strategy on the basis of geography, then once you are catering to a particular territory, you can immediately expand to a nearby territory. In the same way, if you are targeting customers based on their demography (Ex – reebok targets fitness enthusiasts) then you can expand in similar products (Ex – reebok expanding with its fitness range of clothes and accessories). Segmentation plays a crucial role in expansion. You cannot expand in a territory when you have no idea of which segment of customers you will be meeting.



**4) Customer retention** – By using segmentation, Customer retention can be encouraged through the life cycle of a customer. The best example of this is the Automobile and the Airlines segment. You will find major example of customer life cycle segmentation in the Hospitality segment whether they be hotels, airlines, or hospitals. In India, Titan is an example of products which are planned through the life cycle of a customer. From fast track to Sonata and the high range watches, Titan has them by price segment as well as life cycle segment. Thus a watch is available for any customer who enters a Titan showroom, whatever be his age.

**5) Have better communication** – One of the factors of marketing mix which is absolutely dependent on STP is Promotions or communications. The communications of a company needs to be spot on for its TARGET market. Thus if you need a target market, you need segmentation. Communication cannot be possible without knowing your target market. Imagine if you had to make someone across a curtain understand what is politics. You would go on about ruling parties, states, countries and politicians. And when the curtain is taken aside, you find that the person across the curtain is a 5 year old kid. Is there any use talking to him about politics? This shows why communication needs segmentation. If you dont know your market segment, what is their demography, what is their psychology, where they are from, then how can you form a communication message.

**6) Increases profitability** – Segmentation increases competitiveness, brand recall, brand equity, customer retention, communications. Thus if it is affecting so many factors of your business, then definitely it affects the profitability of the firm. Do you ever see people negotiating in a Nike, Gucci or BMW showrooms? You wont. One of the USP's of these brand is their segmentation. They are in fact targeting segments which have no need of bargaining or negotiation. Thus their profitability is high.

In summary – Target the proper segment and you will walk away with a better company and a higher profitability.

## **CONCLUSION**

Since the increased importance is placed on customer satisfaction in today's business environment, many firms are focusing on the notion of customer loyalty and profitability to increasing market share and customer satisfaction. CRM, the core business concept to enhance customer relationship, is emerging as core competence of a firm. Building



successful CRM of a firm starts from identifying customers' true value and loyalty since customer value can provide basic information to deploy more targeted and personalized marketing.

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