

# PRINCIPLES OF MARKETING / 09

IBMS /  
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*Based on Ph. Kotler's Principles of marketing / international edition, and miscellaneous designer's lecturing materials*



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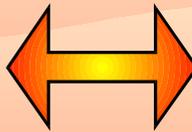
## MARKET SEGMENTATION

### Market segmentation and targeting

#### The concept of market segmentation

- **Mass marketing vs. product differentiation?:** Relatively less expensive mass production-distribution-communication on one hand, versus bringing forth a relatively more expensive assortment on behalf of various customers / customer groups on the other hand.

mass production,  
mass distribution,  
mass communication:  
same product(s) for  
almost everyone



product differentiation:  
different products for  
different -unrelated-  
customers

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## MARKET SEGMENTATION

### Market segmentation and targeting

#### The concept of market segmentation

- **The development of the market segmentation concept:** in the 1960's most large companies discovered the necessity of putting the marketing concept into practice, and started to explore the possibilities of market segmentation. Important factors in this respect, were:
  - **increasing prosperity:** time & buying power;
  - **rising levels of education:** wishes & demands;
  - **advancing -global- competition:** choices.

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# MARKET SEGMENTATION

## Market segmentation and targeting

### The concept of market segmentation

- The **objective of the process of market segmentation** is **target marketing**: directing a company's effort towards serving one or more groups of customers sharing common needs or characteristics.
- **Market segmentation** itself can be defined as follows: the division of a market into distinct groups of buyers with different needs, characteristics or behavior, who might require separate products or marketing mixes.

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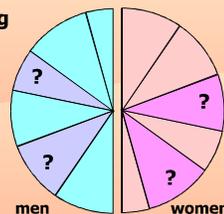
# MARKET SEGMENTATION

## Market segmentation and targeting

### Major steps in target marketing: s-t-p

- **Market segmentation**
  - 1: **identification of bases for segmentation**: how the market can be divided
  - 2: **profile development of resulting segments**: what distinctions can be made in these segments

segmenting  
(example)



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# MARKET SEGMENTATION

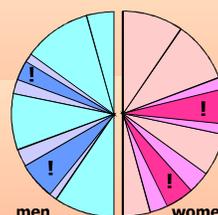
## Market segmentation and targeting

### Major steps in target marketing

(cont'd)

- **Market targeting**
  - 3: **development of measures of segment attractiveness**: how attractive segments can be recognized and measured
  - 4: **selection of target segment(s)**: which attractive segment should be chosen

targeting



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# MARKET SEGMENTATION

## Market segmentation and targeting

### Major steps in target marketing (cont'd)

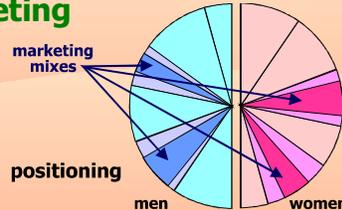
#### ● **Market positioning**

#### 5: development of positioning for each target segment

what distinctions should be made, relative to competitors, from the customer's point of view

#### 6: development of marketing mixes for each target segment

what combinations of marketing-P's should be executed for each target segment



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# MARKET SEGMENTATION

## Market segmentation / aspects

### Levels of market segmentation

#### ● **Market segmentation** can be carried out at many different levels:

- no segmentation: mass marketing;
- segment marketing of one or more segments;
- subsegment marketing: niche marketing;
- complete segmentation: micromarketing.

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# MARKET SEGMENTATION

## Market segmentation / aspects

### Levels of market segmentation

#### ● **Mass marketing:** companies have not always practiced target marketing. For most of the 20th century, major FMCG companies, such as Coca-Cola, kept to mass marketing.

Although mass marketing seems to create large potential markets -which ultimately lead to lower costs, resulting in lower prices or higher margins-, it is increasingly hard to create a single product or program that can apply to all kinds of consumer groups.

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# MARKET SEGMENTATION

## Market segmentation / aspects

### Levels of market segmentation

- **Segment marketing:** happens when a company recognizes that buyers differ in their needs, perceptions and buying behaviors, and adapts its offerings in order to closely match the needs of one or more buyer segments.

This type of marketing offers **several benefits** over mass marketing: more efficient and more effective marketing towards those consumers who can be served best by the company, and less competition.

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# MARKET SEGMENTATION

## Market segmentation / aspects

### Levels of market segmentation

- **Niche marketing:** whereas market segments usually involve large identifiable groups within a market (for instance: air travel in general), **niche marketing focuses on subgroups within these segments** (for instance: air travel by BA's (former) Concorde, or air travel by EasyJet). Niche marketers have to understand their niches' needs so well that their customers for instance willingly pay price premiums (Concorde) or are willing to sacrifice their time or demand for personal attention (EasyJet).

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# MARKET SEGMENTATION

## Market segmentation / aspects

### Levels of market segmentation



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## MARKET SEGMENTATION

### Market segmentation / aspects

#### Levels of market segmentation

- **Micromarketing**: involves the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micromarketing includes **local marketing** and **individual marketing**.
- **Local marketing**: involves tailoring brands and promotions to the needs and wants of local customer groups: cities, neighborhoods, and even malls and specific stores. Example: MLS McDonalds Logistic Services.

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## MARKET SEGMENTATION

### Market segmentation / aspects

#### Levels of market segmentation

- **Micromarketing**:
  - **Individual marketing**: the ultimate form of segmentation: tailoring products and marketing programs to the needs and preferences of individual customers.

Often known as: **markets-of-one marketing**, **customized marketing** and **one-to-one marketing**, although this should not be confused with **mass-customization** (as conducted by Dell Computers, for instance).

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## MARKET SEGMENTATION

### Market segmentation / aspects

#### Financial aspects of market segmentation

- **Costs of segmentation**: although segmentation (and eventually: target marketing) seem be most profitable, there are major costs concerned that will (or might) keep many companies from target marketing:
  - **Costs of R&D and designing**: a company will often have to spend millions of \$ to design special products for each target market.
  - **Costs of production**: producing various products involves vast sums of money.

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# MARKET SEGMENTATION

## Market segmentation / aspects

### Financial aspects of market segmentation

- **Costs of segmentation:**
  - **Costs of promotion:** for every new product a special communication strategy will have to be developed, also costing lots of money.
  - **Costs of stock / supplies:** the more target markets a company is focusing on, the more costs of keeping products in stock.
  - Last but certainly not least: **costs of market research.**

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# MARKET SEGMENTATION

## Market segmentation / aspects

### Requirements for effective segmentation

- **To be useful, market segments must have the following characteristics:**
  - **Measurability (identifiability):** regarding buying power, segment size, segment characteristics; etc.;
  - **Substantiality:** regarding size, profitability, growth potential, etc.;
  - **Homogeneous:** regarding the reactions of customers in the segment towards the marketing mix;

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# MARKET SEGMENTATION

## Market segmentation / aspects

### Requirements for effective segmentation

- **Other equally important characteristics:**
  - **Heterogeneous:** between the segments, meaning that the various segments do differ significantly from each other, in order to prevent cannibalism;
  - **Accessibility:** regarding the ability to reach the market segments effectively, for instance through advertising;
  - **Actionability:** regarding the ability to design effective programs for attracting and serving a given market segment.

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# MARKET SEGMENTATION

## Segmenting **consumer** markets

### B2C segmentation variables

- **Common grouping of segmentation variables regarding consumer markets:**

- **geographic segmentation;**
- **demographic segmentation;**
- **psychographic segmentation;**
- **behavioural segmentation.**

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# MARKET SEGMENTATION

## Segmenting **consumer** markets

### B2C segmentation variables

- **Geographic segmentation:**

- **regionally defined:** for instance China's Shanghai region;
- **based on size of population:** for instance city size;
- **based on population's density:** for instance urban, suburban, rural;
- **based on climate:** for instance tropical, sub-tropical, arctic, etc.

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# MARKET SEGMENTATION

## Segmenting **consumer** markets

### B2C segmentation variables

- **Demographic segmentation:**

- **age, life-cycle stage;**
- **family size, family life-cycle stage:** single, living together, married w/wo children, etc.;
- **income / profession / education / social class;**
- **religion;**
- **human race;**
- **nationality;**
- **generation;** baby boomers, generation X, etc.

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## MARKET SEGMENTATION

### Segmenting **consumer** markets

#### B2C segmentation variables

- **Psychographic segmentation:**

- **based on social class:** for example: the various holiday resorts (like Center Parcs or Club Med) that focus on working-class families, upper-class families, etc. (although part of these segmentations could also be based on lifestyle or personality).
- **based on lifestyle:** for example: sports-oriented, arts- and culture-oriented, etc.
- **based on personality:** for example: personal drives, ambitions, etc.

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## MARKET SEGMENTATION

### Segmenting **consumer** markets

#### B2C segmentation variables

- **Behavioural segmentation:**

- **benefit segmentation:** according to the different benefits that consumers seek from a product, for example the various benefits certain consumer groups seek in tooth paste (cavity prevention vs. good looks vs. fresh breath, etc.);
- **based on usage rate,** for example heavy / medium / light users of certain products; or:
- **based on users status,** for example present / previous / past users, non-users, etc.

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## MARKET SEGMENTATION

### Segmenting **consumer** markets

#### B2C segmentation variables

- **Behavioral segmentation:**

- **based on loyalty status:** based on the degree of loyalty towards a product / brand or towards a certain shop, etc. (= >)
- **based on buyer-readiness stage:** based on the stages that consumers normally pass through on their way to purchasing: awareness -> knowledge -> liking -> preference -> conviction -> purchase, for instance: car sales process.

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# MARKET SEGMENTATION

## Segmenting consumer markets

### B2C segmentation variables

- **Behavioral segmentation:**
  - **based on response to marketing mix:** for example, some consumers respond differently to commercial communications than other consumers do; (= >)
  - **based on the 'adoption categories' as described by Everett Rogers:** based on the categories of first-time (consumer) buyers. (= >)

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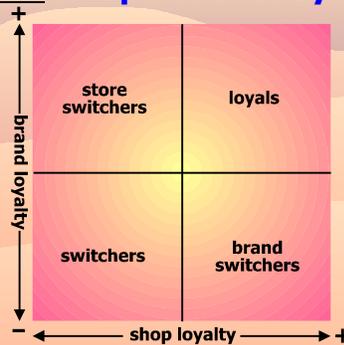
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# MARKET SEGMENTATION

## Segmenting consumer markets

### B2C segmentation variables

- **Loyalty status: shop & brand loyalty**



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# MARKET SEGMENTATION

## Segmenting consumer markets

### B2C segmentation variables

- **Loyalty status: shop & brand loyalty**
  - **the degree of shop (or store) loyalty** can be greater than **brand loyalty**, which enables stores to introduce their own **retail brands**.
  - shop loyalty can be **strongly stimulated by:**
    - more customer friendliness & service;
    - incentives, rewards and saving systems (such as Air Miles and saving stamps);
    - customer (club) cards.

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# MARKET SEGMENTATION

## Segmenting consumer markets

**B2C segmentation variables**

- **Loyalty status: brand loyalty**

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# MARKET SEGMENTATION

## Segmenting consumer markets

**B2C segmentation variables**

- **Response to marketing mix**

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# MARKET SEGMENTATION

## Segmenting consumer markets

**B2C segmentation variables**

- **Adoption categories (Everett Rogers)**

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# MARKET SEGMENTATION

## Segmenting **industrial** markets

### B2B segmentation variables

- **Common grouping of segmentation variables concerning industrial markets:**

- **variables regarding the buying organization;**
- **variables regarding the Decision Making Unit;**
- **variables regarding (DMU) individuals involved.**

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# MARKET SEGMENTATION

## Segmenting **industrial** markets

### B2B segmentation variables

- **Variables regarding the buying organization:**

- **type of organization:** company, institute, etc.;
- **demographic variables:** branch of industry, number of employee's, number of subsidiaries, etc.
- **product applications;**
- **stage in purchasing process:** product specification / suppliers selection, etc.

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# MARKET SEGMENTATION

## Segmenting **industrial** markets

### B2B segmentation variables

- **Variables regarding the buying organization:**

- **degree of loyalty towards supplier(s);**
- **existence of purchasing contracts;**
- **degree of reciprocity amongst the buying organization and its supplier(s);**

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# MARKET SEGMENTATION

## Segmenting **industrial** markets

### B2B segmentation variables

- **Variables regarding the Decision Making Unit:**
  - **composition of the DMU**, 'cast' (assemblage);
  - **subject of uncertainty**: specific need? supplier? process of transaction?;
  - **degree of decentralization**;
  - **degree of pressure of time**;
  - **most essential purchasing motives**;
  - **process of purchasing**: rules of decision, negotiation tactics, etc.

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# MARKET SEGMENTATION

## Segmenting **industrial** markets

### B2B segmentation variables

- **Variables regarding (DMU) individuals involved:**
  - **demographic variables**: age, function, education, experience, etc.;
  - **role in the organization**: position and interaction within the organizational structure and within the DMU;
  - **membership of professional organizations**;
  - **psychological variables**: preferences, attitude, degree of self-confidence;
  - **purchasing motives**: price, buying ease, etc.

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# MARKET SEGMENTATION

## Segmentation process

### General segmentation route

- An absolute method of segmentation does not exist, however a general route could be:
  - **defining the total market**: market definition
  - **finding & gathering the needs**: determination of buyer's needs
  - **preliminary segment classification**: combination of buyers with similar motives
  - **elimination of same characteristics**: evaluation of heterogeneity between segments

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# MARKET SEGMENTATION

## Segmentation process

### General segmentation route

- General route could be: (cont'd)
  - **determination of definitive segments:** if necessary, segments that show more or less the same motives, will be combined
  - **collection of further, additional information:** wishes of consumers / buyers, expectations, etc.
  - **quantification** of the segments

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# MARKET SEGMENTATION

## Segmentation strategies

### Undifferentiated marketing

- **Undifferentiated marketing:** a market coverage strategy in which a company decides to ignore market segment differences and go after the whole market with one offer.
  - Differences between market segments are ignored: **market aggregation**;
  - one general marketing policy for the whole market, as Coca-Cola did years ago;
  - strategy can be useful with products such as sugar and salt.

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# MARKET SEGMENTATION

## Segmentation strategies

### Differentiated marketing

- **Differentiated marketing:** a market coverage strategy in which a company decides to target several market segments and designs separate offers for each.
  - requires significant differences between the market segments, which are each being approached with specially designed marketing mixes;
  - however: when less heterogeneousness occurs, there may be a risk of **cannibalism**.

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## MARKET SEGMENTATION

### Segmentation strategies

#### Concentrated marketing

- **Concentrated marketing**: a market coverage strategy in which a company pursues a large share of one or a few submarkets.
- strategy focuses on one or a few carefully chosen segments (**niche-marketing**), or segments, one by one (**market by market segmentation**).

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## MARKET SEGMENTATION

### Segmentation strategies

#### Counter segmentation

- **Counter segmentation**: a market coverage strategy in which a company decides to combine several segments, for instance as a result of changing consumer demands, or decreasing buying power.
- can also occur as a result of **over-segmentation**, such as was the case with Johnson & Johnson's shampoos for the infant market and for the grown-up market.

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