CHAPTER 5

Target Markets: Segmentation & Evaluation

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Housekeeping

- Turn off your cell phones and put them away.
- Put your Name Cards out.
- Look at Assignment 1; I will review it in class on Thursday. Due in class on March 10th.
- We will have a quiz on March 8th. Covers Chapters 3 and 4. There is no make-up for quizzes.
- Arturo Litwak will be here on March 10th.
- Exam 1 is March 22nd. It will cover Chapters 1-8 (incl). Open book; no technology; will not cover my notes.
  - You will need a #2 Pencil and a Scantron
  - There is no make-up for exams!
Learning Objectives

- Discuss the term “market” from a marketing perspective.
- Explain the importance of segmentation and targeting.
- Apply the major segmentation variables.
- Investigate the importance of sizing a target market.
What will you be able to do after this class?

- Conduct basic segmentation analysis.
- Develop a marketing mix for a particular segment.
## Markets Defined

- A “market” is a group of people, individuals or organizations that have:
  - Desire or needs for products in a product class
  - Ability, willingness, and authority to purchase such products

- There are Two Categories
  - **Consumer market:** Purchasers and household members who intend to consume or benefit from the purchased products and do not buy products to make profits. *Typically called B2C.*
  - **Business market:** Purchase a specific kind of product for resale, direct use in producing other products and use in general daily operations.
    - We will discuss **B2B** markets in another class.
What type of market do you serve?

– **Homogenous:**
  • Large proportion of customers have similar needs for a product
    – Examples: salt, sugar, milk, gas,

– **Heterogeneous:**
  • Customers have diverse needs for products in a specific product class
    – Computers - laptops vs desktops; Macs vs. PCs,
    – Books - fiction, non-fiction, e-Readers

*Market Segmentation* is the process of dividing a market into a group that have similar needs

A *market segment* is a group that has similar needs
How Do You Segment a Market?

How do you break apart a large group to identify a group that you are interested in?
1. Segmentation
   Identify and describe market segments

2. Targeting
   Evaluate segments and decide which to go after

3. Positioning
   Design a product or service to meet a segment’s needs and develop a marketing mix that will create a competitive advantage in the minds of the selected target market
Objective of Market Segmentation

It is your goal to:

Identify segments that have the greatest profit potential based on their requirements and your capabilities.
Breakfast Cereal Market Segments

- Family feeders
- Mobile snackers
- Family friendly
- Easy start
- Dietary needs
- Good start
- Just for kids
Target Market Selection Process

1. Identify the appropriate targeting strategy
2. Determine which segmentation variables to use
3. Develop Market Segmentation Profiles
4. Evaluate relevant market segments
5. Select Specific Target Markets
Step 1: Identify the appropriate targeting strategy

- **Target market**
  - Consumers for whom a business creates and maintains a marketing mix
  - Assignment 1

- **Strategy selection for target market is affected by:**
  - Target market characteristics
  - Product attributes
  - Organization’s objectives and resources
What is an example of each one of these targeting strategies?

Undifferentiated Strategy (eggs, salt, milk)

Concentrated Strategy (Rolex, Harley Davidson, Tesla, Forever 21 ... maybe; typically used for small segments)

Differentiated Strategy (Holiday Inn – Express, Crowne Plaza, Resort, Vacation, Intercontinental; McDonalds; Disneyland; Economist Magazine)
Holiday Inn’s Differentiated Strategy
Which bucket do these products/brands Fit in?

- **UNDIFFERENTIATED**
  - Maybelline
  - Shell

- **CONCENTRATED**
  - Stonyfield Organic Whole Milk
  - Campbell’s

- **DIFFERENTIATED**
  - Louis Vuitton
  - Nike
  - Barbie
  - Tide
  - Community
  - College
  - Education
  - Mercedes-Benz
Conditions for Market Segmentation to succeed

- Customer’s needs must be heterogeneous
- Segments must be identifiable and divisible
- Marketer must be able to compare the different market segments – In terms of sales potential, costs, and profits
- One segment must have enough profit potential to justify developing a special marketing mix
- Company must be able to reach the chosen segment with a particular marketing mix
What variables do you use to segment?

- What is a Segmentation Variable?:
  - Characteristics of individuals, groups or organizations used to divide a market into segments
    • Should relate to the customers’ needs for, uses of or behavior toward the product
    • Must be measurable
    • Company resources and capabilities affect the number and size of the variables
    • Product type and degree variations in customer needs
The following variables are most often used to segment markets:

**Demographic variables**
- Age
- Gender
- Race
- Ethnicity
- Income
- Education
- Occupation
- Family size
- Family life cycle
- Religion
- Social class

**Geographic variables**
- Region
- Urban, suburban, rural
- City size
- County size
- State size
- Market density
- Climate
- Terrain

**Psychographic variables**
- Personality attributes
- Motives
- Lifestyles

**Behavioristic variables**
- Volume usage
- End use
- Benefit expectations
- Brand loyalty
- Price sensitivity
Geographic Variable

- Climate and terrain
- City size and population density
- Urban area and rural area

**Market density:**
- Number of potential customers within a unit of land area
- *Useful segmentation variable for firms because low-density markets require different sales, advertising, and distribution activities than high-density markets*
Climate affects numerous markets. Customers’ needs for automotive accessories, such as tires, vary based on climate.
Psychographic Variables

- Personality characteristics
- Motives - Divides the market according to consumers’ reasons for making a purchase
- Lifestyle analysis - Characteristics related to people’s activities, interests, and opinions
  - Lifestyle segmentation groups people by:
    - How they spend their time
    - The importance of things in their surroundings
    - Beliefs about themselves and broad issues

Demographics explain who your target is, psychographics explain WHY they buy!
Psychographic Variables

Using Psychographics In Marketing

Family

Career

Quality, not Discounts

Time with Friends

Health

Savings

Personal Appearance

Relaxing on Pinterest
Which bucket do these products/brands Fit in?

DEMOGRAPHIC

GEOGRAPHIC

PSYCHOGRAPHIC

BEHAVIORISTIC

Food4Less

LGBT

NWTF

Native American Heritage Association

Athleta

Starbucks Coffee

NASCAR

I Am Punk
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Segmentation Profile Development

Fitness Chain Segmentation Profile:

http://www.segmentationstudyguide.com/segment-profiles/segment-profile-example/
Step 4 - Evaluate Relevant Market Segments

Market Segment Aspects to be Evaluated

- Sales Estimates
- Competition
- Estimated Costs
How big is the overall market?
- Remember the market sizing activity you did in the Target Market homework?
- Stated in terms of dollars and units

How much of that market share is it realistic for your to capture?
- Can you impact that by adjusting your segmentation or marketing mix?
- What are your organization’s resources?
- What are the environmental factors?

Entrepreneurship Tip!
If you are thinking of starting your own business, then think about capturing a share of a small market not a big one!
Evaluating the Market

Create a Profile for Hiking Club at LAMC

• What characteristics would you look for to segment the market and develop your target market?
  • Demographic
  • Geographic
  • Psychographic
  • Behavioristic

• What is your marketing mix?
  • Product
  • Price
  • Promotion
  • Place/Distribution

Hands on Exercise:
Segment a market, create a target market and develop a Product/Service!
Create a Profile for Hiking Club at LAMC

**Segmentation Variables:**
1. Demographic
2. Psychographic
3. Geographic
4. Behavioral

**Marketing Mix:**
1. Product
2. Price
3. Promotion
4. Place/Distribution
How Do You Know Whom to Market To?

1. What needs do your product/service address?

2. Who values the key attributes of your product

3. Use a filter!

   - Example: Baby Strollers
     1. My product is a stylish, foldable light-weight stroller with jogging wheels
     1. All parents (Demographic, but mostly mothers....)
     2. City Dwellers (Geographic)
     3. Lifestyle..what does this stroller say about me? (Psychographic)
     4. End use - Jogging (Behavioral)
How Do You Know Whom to Market To (Cont’d)?

- Now let’s Segment our Target Market
  - Parents mostly mothers of children over three months

- Segmentation is breaking that Target Market down into smaller pieces so that you can reach them better!
  - **Demographic**
    - Age and Gender (women, younger 18-45)
    - Income (my stroller is expensive...)
    - Education (requires research)
  - **Geographic**
    - City dwellers (those who mostly jog)
    - Urban
    - Terrain
  - **Psychographic**
    - Lifestyle
    - Personality
  - **Behavioristic**
    - Active
    - Expects high quality performance
In Reality Target Market Definition and Segmentation Mostly Happen Together!
Target Marketing comes BEFORE the Marketing Mix
Why?
Apple Watch

- Target Market:
- Population where Apple has a presence
  - High Disposable Income (Demographic)
  - Men and Women over 18 (Demographic)
  - Early Adopters of Technology (Behavior)
  - Active (Lifestyle)
  - Apple Loyalists (Behavior)
  - Image conscious (Psychographic)
  - Urban? (Geographic)
Who is Nike’s Target Market?

- All Athletes
  - Adults and children
  - Athletes and those who want to be athletes

- But Then….Nike segments the market and targets all athletes with a different marketing mix?
  - Nike
  - Nike Air
  - Air Jordan
  - Nike Skateboarding
  - Cole Haan
  - Hurley
  - Converse

What Marketing Strategy is this?
Work on Identifying Some Target Markets as a Group

- Apple Watch not Apple
- Tommy Hilfiger Jeans not Tommy Hilfiger
- Victoria’s Secret Lingerie not lingerie
- Century 21 Realty; residential only
- WD 40
- Adidas shoes not Adidas
- Playstation 4 not Sony Gaming Products
End