

## **CE Entrepreneurship Market Segmentation**

### **What is market segmentation?**

To say “we will market our product to the general public” is a bold statement. It is a very general statement and may be impossible to achieve. It might be that this is not your real aim at all – you may just think that is what you are doing. In reality the customer base needs to be identified much more accurately than ‘the general public’ or any other catch phrase of this nature. The reason the market needs to be accurately defined is because different customers have different needs and, as a result, acquire different products or services to meet their needs.

For example new mothers purchase the majority of baby foods, most business suits are purchased by white-collar workers, and so on. These are clearly not absolute rules however they do indicate preferences.

This results in a repeat of the question that is the customer for a particular product or service? The customers will be a segment of all-possible individuals or groups. Segmentation can be defined as:

“the selection from all possible potential customers all possible customers who are most likely to need and want to buy the product or service”

If the market can be divided down into the segments that are most likely to need and want to buy the product or service, these segments can be targeted individually for maximum effect. The process of identifying a segment and then specifically targeting it is called ‘target marketing’ or ‘differential marketing’.

## How to segment the market

The traditional approaches to segmenting a market are shown in Table 1.

Price	Sex	Work pattern
Geography	Culture / ethics	Family structure
Income	Socio-economic grouping	Mobility
Age	Marital status	Lifestyle

Table 1. Traditional approaches to market segmentation

Of these, a very mature form of segmentation, and one that is now outdated, is the socio-economic grouping system, shown in Table 2.

Designator	Class	Examples
A	Upper middle	High managerial, admin, professional workers. Company directors, established doctors or solicitors.
B	Middle	Intermediate managers, admin or professional
C1	Lower middle	Supervisory, clerical, junior managerial
C2	Skilled working	Skilled manual
D	Working	Semi-skilled or unskilled
E	Pensioners, casual workers and others	

Table 2. Socio-economic grouping system

Clearly to go to the effort of segmenting the market there must be some benefit. We must be able to make use of the segment to add value to the marketing process.

### What are the requirements of a useable segment?

For a segment to add value it must be:

#### **Definable**

That is you must be able to describe the segment and its boundaries

#### **Sizeable**

Is the segment large enough to produce enough turnover and profit? This is, of course, relative to the business activity of the company. Useful segments are defined relative to the resources and objectives of the organisation.

### **Reachable**

The segment must be able to be reached effectively and efficiently. This must include distribution of the product where appropriate.

### **Relevant**

The segment must be relevant to the organisation.

Segmentation must be used with care as division into too many segments can lead to a proliferation of different products and confusion in the minds of customers.

Segments can be described using two approaches, 'buyer characteristics' and 'customer behaviour/benefits'.

## **Buyer characteristics**

Characteristics of the buyer include demography, geography and psychographic segmentation.

### **Demographic segmentation**

Demographic segmentation is the division of the market into groups using bases such as those shown in Table 3. It is a very widely used method of segmenting a market and can be based on available government statistics.

	Illustration
Age	Under 6, 6-11, 12-19, 20-34, 50-64, 65+
Sex	Male, female
Family size	1-2, 3-4, 5+
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; and so on
Income	Under minimum wage, minimum wage, under £10,000, £10-15,000, and so on
Occupation	Professional and technical; managers; officials; sales; crafts; farmers; lawyers; and so on
Education	Secondary; GCSE; Graduate; Postgraduate
Religion	Church of England; Catholic; Protestant; Jewish; Hindu; and so on
Race	White; Black; Oriental; and so on
Nationality	British; American; French; German; and so on

Table 3. Demographic segmentation (personal)

The organisational equivalent set of segments is:

Industry type	SIC – Standard Industrial Code classification
Turnover &/or profit	Owner managed small business; SME; Medium sized enterprise; Large enterprise; Multinational By numeric turnover or profit
No of employees	<10, 10-50, 50-250, >250
Number and type of customers	Government; multinational; general public; Small Businesses; and so on

Table 4. Demographic segmentation (organisational)

Demographic data is easy to obtain and is tangible and reliable. It forms a good basis for a coarse search and division. A very full database of demographic profiles is the TGI – Target Group Index, produced by the British Market Research Bureau, a commercial organisation which carries out about 3000 interviews per month and continuously updates information on several thousand brands and product categories. It also covers the media which reach the various segments.

### **Geographic segmentation**

Geographic segmentation is literally what it says, segmentation in terms of geographic location, examples include:

- Rural versus urban
- Warm versus cold
- North versus south
- Number of shoppers living within a specific radius or travelling distance from an outlet

Examples to illustrate the potential use of geographic segmentation are:

- Consumption of sugar-based products is greater in Scotland than in the rest of the UK.
- Placement of Lottery machines is based on capture area and volume of trade

### **Psychographic and Lifestyle segmentation**

Psychographic and Lifestyle segmentation is segmentation by personality traits, for example:

- Sociability
- Self-reliance

- Assertiveness
- Attitudes
- Interests
- Opinions

Examples of some of these categories are shown in Table 5.

Activities	Interests	Opinions
Work	Family	Themselves
Hobbies	House	Social issues
Social events	Job	Politics
Vacation	Community	Business
Entertainment	Recreation	Economics
Club membership	Fashion	Education
Community	Food	Products
Shopping	Media	Future
Sports	Achievements	Culture

Table 5 Lifestyle examples

Another example is lifestyle segmentation, this time by Access, the UK credit card Company, was reported in the Daily Mail in 1991:

**Are you a Yak or a Ewe?**

In a UK, Access, the credit card company, came up with a 6 lifestyle segments, built up from profiles of its 10 million credit card holders. Within these segment profiles, it is easy to see the influence of democratic variables, as well as some of the elements defined in Plumber's (1974) activities, interests and options categories:

**YAKS (Young, Adventurous, Keen and Single)**

These are 18 at 24 years old, have no heavy financial burdens yet, since they either live at home with their parents or rent cheaply, and can afford to ski in the winter and seek the sun in the summer. They are status seekers who like eating out, fashion and flash cars.

**EWES (Experts With Expensive Style)**

Aged between 25 and 34, they have two incomes, a mortgage, but no children. They are high-flying, trendy and enjoy a busy and extensive social life. They can still afford two or three holidays a year, despite heavy spending on the home.

#### BATS (Babies Add The Sparkle)

These couples are similar in an age to the EWES, but in addition to a mortgage, they also have the responsibility of children. The holidays will be more restricted and modest, since most of the spending is home or child orientated.

#### CLAMS (Carefully Look At Most Spending)

These are 34-44 years old with heavy financial burdens, such as mortgages and school fees. The car is likely to be second-hand estate. Since cash is so tight, they will be higher borrowers and will restrict their social life to things like dinner parties with other CLAMS of their acquaintance.

#### MICE (Money Is Coming Easier)

At 45-55, MICE are at the peak of their earning, and because the children are in the process of leaving home and the end of the mortgage is at least in sight, they have more disposable income to enjoy for themselves. They can, therefore, enjoy regular holidays.

#### OWLS (Older With Less Stress)

These are the over 55s who have paid off most of the long-term debt. The children are now independent, so the owls have more disposable income for themselves, and may even have moved into a smaller house that is cheaper to run and maintain. They have plenty of leisure time and are determined to enjoy it, particularly as they are generally healthy and like travel.

Clearly, such classifications give Access more insight into the particular needs and wants of different groups of customers. By understanding the customer's cash flow pressures, the spending profiles and the usage of the credit cards, the organisation can better tailor its customer service and marketing mixes to appeal to each group, thereby forging closer bonds with them.

Extract from the Daily Mail 1991.

### **Benefits segmentation**

A potential market can also be segmented on the basis of the benefits the products confer on the customer. This approach is logically called benefits segmentation. It is perhaps best illustrated using the car. Consider the following segments. You might like to consider and list the benefits of each.

- Family saloon

- Sports car
- Status symbol
- Second car
- Off road vehicle
- Utility vehicle
- Bike?

### **Behavioural segmentation**

Segmentation based on usage rates and brand loyalty is called behavioural segmentation. Examples of common segments using this method are:

- Heavy users (e.g.: everyday)
- Medium users (e.g.: once per week)
- Light users (e.g.: once per month)
- Occasional users
- Non-users

The later broken down to never used the brand and lapsed users.

Applying the Pareto principle that 80% of sales will go to 20% of the customers, in the above case this is likely to be the heavy users segment. There may be the temptation to concentrate all efforts on these customers because they provide the bulk of the profitable sales. However this group needs attention paying to it to reinforce this purchasing behaviour. A different marketing message would be needed to occasional or light users.

Purchasing behaviour follows a sequence:

*Awareness leads to Interest leads to Desire leads to Action*

### **Target Marketing**

Target marketing is the process of selecting one or more market segments and then developing a product and offer that is aimed specifically at that or those segments. This is an example of the notion of *matching* mentioned earlier.

The process that normally needs to be followed is:

1. Select the market segment
2. Identify the key attributes of customers in that segment towards the product or service
3. Optimise the product or service for these attributes

### **Using target marketing for competitive advantage**

There are five steps to gaining competitive advantage:

1. Who are our existing customers?
2. What are their current and future needs?
3. How do they judge value?
4. When and where can these customers be reached?
5. How can we do this better than our competition?

### **Criteria for useful segmentation**

A good market segment must be:

- Definable - you must be able to describe it and its differences to other segments
- Sizable - it must be large enough to produce enough turnover or profit
- Reachable - the segment must be able to be reached effectively and efficiently
- Relevant - it must be relevant to the organisation

### **The pros and cons of segmentation**

An advantage to the customer is that the product will be seen to fit more closely to their needs and wants. They may even feel that the supplier is giving them a personal service.

The supplier gains brand loyalty.

The products are better differentiated and the choice of what to buy becomes clearer.

By clarifying your position you are more able to understand what segments your competition are addressing. This may give you an opportunity to exploit an unaddressed segment.