



Market segmentation

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1. Introduction

In any market, the customers will have a range of differing needs. These needs might be met by different products, or by similar (even identical) products presented differently. It is impossible to target successfully every customer in a market. Dividing a market into segments helps you identify the most important segments for your business. It helps you to understand its composition and makes it easier to interpret and present statistical information. You can then position products to appeal to particular customers.

2. Segmentation

The most successful businesses understand the needs of their customers. Consideration of how the market can be segmented is an aid to such understanding. It can also help you to assess the competition and locate gaps in the market.

2.1 Segmenting the market

A market may be divided up using a number of criteria. Consumer markets are often broken down by age, gender, occupation, etc. Business markets are often broken down by location, size of firm, industry, etc. The trick is to find criteria that are relevant to your target market.

When several different criteria are applied, it is not long before a fairly precise group is defined. For example, a luxury product may only be afforded by certain income groups. It may only be available in one area. Female homemakers could be the main purchasers. The product may appeal most to those who are able to drive, are aged between 20 and 30 and have no children. Once a segment has been defined, the promotion of the product can be targeted more effectively.

¹ This factsheet is based on material originally published in Sales and Marketing, a Business Action Pocketbook edited by David Irwin, copyright Project North East, 1998, and used with permission.

2.2 Targeting customers

All businesses should accurately target their prospective customer groups. An accurate profile of your customers will help you locate them and work out how you can best satisfy their needs. Relevant market research material can be sought and analysed for useful information. Breaking down the information by your criteria can produce very specific information directly relevant to your target markets. As segmentation methods are well recognised, research results can be produced in a way that financiers and other backers of the business can understand. Advertising material and promotion strategies can be designed to suit. This is particularly necessary for small businesses. With limited resources they cannot hope to compete in all the available markets. It is essential to be able to target prospective customers very accurately. For a small business this usually means either finding a highly specialised 'niche' in a national or international market or tailoring a product or service to compete in local markets.

3. Benefits of segmentation

There are a number of benefits to segmenting the market for your business.

- Better understanding of customer needs and wants.
- Leads to more effective customer marketing programmes.
- Insight into the competition.
- Increase sales by taking sales from competitors.
- Offer new and improved products to current markets.
- Increase sales of existing products to new markets.
- Seek to establish new products in new markets.

4. Segmenting consumer markets

Many different criteria can be used to segment markets, some of the most common are outlined here.

4.1 Geographic

- **Location** – The most straightforward way to segment a market. You may be restricted to customers within easy reach of your premises, or near the main lines of communication. This immediately defines a section of the market available to you.
- **Region** – Particular regions may exhibit characteristics favourable to your business. For example eating habits can vary according to location and some dishes are regional. Town and city dwellers have different needs to people who live in the countryside..
- **Residential** – Residents can be categorised according to the type of housing in which they live. Some areas are mainly poor quality housing, others mainly new build, etc.

4.2 Socio-economics

- **Income** –The purchasing of products is influenced by the disposable income available (especially important in the market for non-essential items). This factor can change rapidly especially in times of recession as redundancy becomes more common and spending power reduces as a result.
- **Occupation** – Here segmenting can be done by broad categories, for example ‘professional people’, ‘manual workers’, etc, or by smaller groups such as lawyers, car mechanics, etc. Groups may have needs that are specific to their occupation, but the market must be large enough to be profitable. Occupation is taken to influence the entire household - people are described as coming from a background where the ‘Head of the Household’ has a particular occupation. This can be confusing where two or more householders are engaged in entirely different occupations.
- **Social class** – In many countries, this is a traditional way of categorising people, though it is somewhat controversial way and some people find it offensive.

4.3 Demographics

- **Age** – Each generation has tastes, behaviours and experiences in common. The older person will not want the same clothing or shoes as a fashion-conscious teenager. Older retired people may be more interested in items or services that may affect them directly such as sheltered housing or holidays especially for the older traveller.
- **Family life cycle** – Individuals may be categorised by their position in relation to the development of a family. Possible categories include young single people, young couples with no children, young couples with the youngest child under six, couples with older dependent children, older couples with no children at home and older single people. Such categories are flexible and have to change and develop according to the real situation. The stage a family has reached dictates many of its needs and buying behaviour. The couples with young children would buy more products for babies and

children than the other categories. Older couples with no dependent children will spend more on items for themselves. Holidays may be affected by the size of the family. All these families may want different types of holiday with both cost and location being important.

- **Nationality and culture** – Many countries have a wide diversity of races, religions and nationalities. All these groups combine characteristics from the culture of their homeland with the local way of life. This has an effect on their buying habits. When selling abroad, each country has its own national characteristics, but most also have a population made up of mixed races, religions and nationalities.
- **Gender** – Some products are only for males or females and are bought mainly by members of that gender (eg tights for women). Other such products may be bought by someone of one gender as a present (eg aftershave for men).

4.4 Personality, motives and lifestyle

- **Behaviour** – The buying decisions of people may be influenced by their personality. Some people like to buy the latest products, others are more conservative and wait to see how a product performs before making a purchase. Some people stay loyal to particular brands, others chop and change (perhaps buying on price alone). These customers represent different segments of the market and should be targeted differently.
- **Benefit** – This involves dividing the market into segments based on the benefits that individuals look for in the services or products. When choosing a car, some want good petrol consumption, others want a status symbol, etc. Different brands of toothpaste target people who want different benefits from the product: some want whiter teeth while others want to make their teeth less sensitive.

5. Industrial markets

Industrial markets call for different segmentation techniques. On the whole, marketing to business markets will differ from the marketing used to promote products and services to consumer markets. It can be hard, however, to target individual buyers within firms which are potential customers. Especially for large companies, marketing effort is usually aimed at the 'buying centre' of a business. This comprises various members of the firm, for example, product specialists, sales executives and management. Each will have different influences on the final decision maker, often the Managing Director. If you sell products to retailers, you also need to understand the needs of the consumers who will ultimately buy your products.

There are several ways of segmenting an industrial market:

- **Type of organisation** – Is it a company, or a government department, or a municipal authority?
- **Standard Industrial Classification (SIC) codes²** – These break industry into categories based on what they do. Groupings can be broad or narrowly defined.
- **Geographic** – Markets vary according to location; one country may well have different needs and different industries to other countries. There can also be wide regional variations within a country.
- **Size of organisation** – Size can be an appropriate factor. A business with limited capacity might not want very big customers, but a big consultancy firm would not usually market its services to sole traders.
- **Product usage** – Size and frequency of orders, delivery requirements, etc.

6. Useful tips

- Do not overcomplicate the way you segment your market. Keep it simple so that others can understand it.
- Estimates and deductions using data about market segments still need to be backed up by hard evidence of demand for your particular products or services.
- A target segment should not be too large or the chances of its members behaving similarly are reduced.
- Understand why you are segmenting the market. What will it do for your business?

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² See full list at https://unstats.un.org/unsd/publication/seriesm/seriesm_4rev4e.pdf

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