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Module: English
Branch: Marketing
Level: Third year Bachelor

Lecture 04: Market Segmentation

Learning Outcomes

By the end of this lecture, students should be able to:

-Define the concept of market segmentation and explain its importance in modern marketing.

-Identify the main criteria for effective segmentation (measurable, accessible, meaningful, and consistent).

-Differentiate between mass marketing and segmented marketing strategies.

-Explain how segmentation enhances customer satisfaction and profitability.

-Analyze the relationship between market size, customer satisfaction, and willingness to pay.

-Apply different methods and bases of segmentation (e.g., demographic, geographic, psychographic, behavioral).

-Evaluate the profitability and potential of different market segments for strategic decision-making.

This Lecture explains how markets can be divided into smaller, manageable segments to better target consumer needs. Since few mass markets remain, companies must segment markets when most consumers already enjoy a product's basic benefits. Effective segmentation must be measurable, accessible, meaningful, and consistent. Profitability depends on the number of people in a segment and the premium they are willing to pay. Although narrower segments have fewer customers, they typically yield higher satisfaction and willingness to pay—if correctly identified. There are various valid methods for segmentation, as long as groups share similar needs.

1-The Concept of Segmentation;

The idea of market segmentation was first introduced by Smith in 1957 and later developed as a method to categorize consumers based on their specific needs. The main purpose of segmentation is to identify groups of individuals who share similar needs that can be satisfied by a single product. This allows a marketing company to focus its efforts more efficiently and economically. For instance, when a manufacturer produces a standardized product on a large scale, it must confirm that there is a sufficiently large group of consumers who require the product to make the production worthwhile.

2- Reasons for Segmenting Markets

-Customer analysis: Segmentation helps a company gain a deeper understanding of its most valuable customers.

-Competitive analysis: Concentrating on a specific portion of the market allows a business to more easily identify competitors and respond to competitive challenges.

-Efficient resource allocation: Limited company resources can be used more effectively by targeting a smaller, well-defined group of consumers rather than spreading efforts across the entire market.

Strategic marketing planning: Focusing on the company's ideal customers simplifies marketing decisions and facilitates market expansion by attracting new consumers who share similar characteristics with existing satisfied customers but are not yet familiar with the product.

3- Segmentation Variables

For market segmentation to be effective, each segment must satisfy several essential conditions:

-Measurability and definability: The segment should be clearly identifiable, with a known number of potential customers. It should also be accessible, meaning the company must be able to reach and serve this group efficiently.

-Significance and consistency: The segment should be large enough to justify targeting and composed of members who share similar needs and preferences.

-Stability: The composition and characteristics of the segment should remain relatively consistent over time.

The key criteria for segmentation include accessibility, relevance, and measurability. Additionally, marketers should understand the underlying reasons for segmentation, which helps predict market changes and verify that the chosen segmentation base is appropriate.

The main types of segmentation are:

-Geographic segmentation: Based on location, climate, or terrain. For example, cars in southern Algeria are typically equipped with air conditioning, while vehicles in Sweden often keep headlights on most of the year due to limited daylight. Geographic segmentation is widely used in both international and domestic markets.

-Psychographic segmentation: Focuses on personality traits, values, and lifestyles. For instance, the home insurance market may include people worried about crime, natural disasters, or accidental property damage.

-Behavioral segmentation: Divides consumers according to benefits sought, usage patterns, purchasing behavior, or brand loyalty. In the automotive sector, customers might include commercial users, private owners, or those who use cars for recreation or daily family needs.

-Demographic segmentation: Relates to factors such as age, income, occupation, and family status. For example, the housing market can be categorized into first-time buyers, families, retirees, or elderly individuals in assisted living. Similarly, housing preferences can also differ by lifestyle some properties attract young professionals, while others appeal to nature enthusiasts.

4- Targeting

After dividing the market into distinct segments, managers must decide which segment or segments to focus on, in line with the company's overall objectives. Typically, firms target the most profitable segment, but in some cases, they may choose a neglected or less competitive segment to take advantage of lower competition. This process of selecting a specific market segment to serve is known as targeting.

There are three main targeting strategies available to marketers:

-Concentrated Marketing (Single Segment):

Also known as niche marketing, this strategy focuses on serving one narrowly defined market segment exceptionally well. Brands like Tie Rack, Sock Shop, and Knickerbox use this approach to dominate small, specialized niches.

-Differentiated Marketing (Multi-Segment):

This approach targets two or more market segments, offering a tailored marketing mix for each. For example, Holiday Inn caters to business travelers during weekdays and to families seeking leisure on weekends offering special room rates and children's activities to attract the latter group.

-Undifferentiated Marketing:

This strategy adopts a mass marketing or "one-size-fits-all" approach, treating the entire market as a single segment. It is common for basic products used by all consumer groups, such as petrol, where differences between users are minimal. Although brands may attempt to distinguish their products through additives or branding, the fundamental use remains the same. Today, true undifferentiated marketing is rare, as even basic goods like salt and flour have been differentiated to better meet consumer needs.

The choice of targeting strategy depends on three key factors:

- The resources available to the company,

- The features and benefits of the product, and

-The characteristics of the selected market segment(s).

5- Positioning

Positioning refers to the place a product occupies in the minds of consumers within a specific market segment known as the target market. It represents how customers perceive the product in comparison to competing offerings, often visualized on a perceptual (positioning) map that highlights attributes such as quality, reliability, or price level.

Positioning results from how consumers interpret and categorize products based on their expectations and the key features that matter most within a given product category. Therefore, marketers must first identify the attributes that customers value most in that category. Once these characteristics are known, they can design an effective mix of product features, benefits, and communication strategies to create a distinct and favorable position in the market.

Research indicates that consumers rely on a few main factors when forming product perceptions, including:

-Prestige: The product considered top-tier or premium (e.g., often described as the "Rolls-Royce" of its category).

-Service quality: The level of support or service associated with the product.

-Value for money: The perceived fairness of the product's benefits relative to its price.

-Reliability: How dependable the product is compared to competitors.

-Attractiveness: This includes both aesthetic appeal and performance characteristics.

-Country of origin: The reputation of a country for producing certain high-quality goods (e.g., German engineering, French cuisine and wine).

-Brand identity: The brand plays a central role in defining a product's image and perceived quality.

-Selectivity: The degree to which consumers differentiate between brands and the variety of choices available.

In essence, effective positioning ensures that a product stands out clearly in the minds of its target consumers and occupies a desirable place relative to competing brands.

Key Terms

-Marketing: The process of creating and delivering value through a brand while building long-term, profitable customer relationships.

-Competitive Advantage: The company's ability to persuade customers that its offerings better meet their specific needs and preferences than those of competitors.

-Identification: Developing a customer profile to gain a clearer understanding of the customer's real situation and behavior.

- Creation: The act of building brand value, positioning, competitive strength, corporate image, or supply chain connections.

-Relationship: Establishing trust and mutual understanding to foster lasting relationships between buyers and sellers.

-Need: A state of felt deprivation or something essential that is lacking.

-Desire (Want): A specific form of need shaped by cultural influences and individual personality.

-Demand: A want that is backed by the customer's purchasing power and willingness to buy.

-Market Offerings: The mix of products, services, information, and experiences presented to the market to fulfill customer needs and wants.

-Marketing Myopia: A company's failure to correctly assess its level of competition or the broader market environment.

-Value: The perceived ability of a product or service to satisfy a customer's needs or desires.

-Satisfaction: The level achieved when a product's actual performance meets or exceeds customer expectations.

-Demarketing: The deliberate reduction or redirection of demand temporarily or permanentlynot to eliminate it entirely, but to manage or adjust it appropriately.

Example to Understand "Market Segmentation"

Imagine a smartphone companylet's call it TechZonethat wants to increase its sales. Instead of trying to sell one phone model to everyone, TechZone decides to segment the market based on customer differences.

1. Geographic Segmentation:

TechZone sells high-end smartphones with advanced cameras in urban areas (where people use social media frequently) and simpler, durable phones in rural regions (where reliability and battery life are more valued).

2. Demographic Segmentation:

- For young professionals (ages 25–35): phones with productivity apps, sleek designs, and fast performance.
- For students (ages 18–24): affordable models with good cameras and gaming features.
- For older adults (50+): easy-to-use phones with large displays and strong battery life.

3. Psychographic Segmentation:

TechZone targets tech enthusiasts with innovative features like AI cameras and foldable screens, while also offering minimalist models for budget-conscious consumers who prefer simplicity.

4. Behavioral Segmentation:

The company identifies brand-loyal customers who upgrade every two years and offers them loyalty discounts, while creating promotional bundles for first-time buyers.

Result:

By dividing the market this way, TechZone tailors its products, pricing, and promotions to meet the specific needs of each segment, leading to higher customer satisfaction and greater profitability.

In short: Market segmentation helps TechZone focus its marketing efforts efficiently—offering the right product to the right people at the right time.