



UNIT-3

Markets and Market Segmentation

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Explain the meaning of a market.
- ✓ Identify different types of markets and their characteristics.
- ✓ Understand the meaning and significance of market segmentation.

Unit 3

Markets and Market Segmentation

In the previous two units, you studied the meaning, nature, and scope of marketing and the marketing environment. In order to succeed in your marketing efforts, it is important to understand the characteristics of the market for your product and focus your efforts on the segment where it is likely to meet with the most success.

This is essential, as it is nearly impossible to sell one product to every single consumer - all consumers will never have the same tastes or buying capacity. In this unit, you will study what marketing means, how markets are classified and the characteristics they possess. You will also investigate the meaning and importance of market segmentation, why segmentation is required and the basis on which segmentation is carried out.

What is a Market?

The term “market” has a number of meanings. It may refer to a specific place where a group of buyers and sellers are located. In economics, it refers to a collection of buyers and sellers who buy or sell a particular product or product range (electronics, fashion goods, etc.). However, there is a disagreement between marketers and economists, because in the opinion of the marketer, all the sellers constitute a market and all the buyers constitute the market *for* marketers.

A market consists of all the potential buyers who share a need or want that has to be fulfilled, and who are able to exchange something (usually money) in return for that need being fulfilled. Therefore, for a marketer, a market is the group of all actual and potential buyers of a product. In this unit when we refer to the term market, we will use the definition of a marketer, as opposed to that of an economist. According to this definition, if 100 variants of a product are produced in a country, then there are 100 distinct markets. Therefore, the market may be spread throughout the country.

Market Types and Characteristics

As you are already aware, individuals purchase various goods for their own consumption, businesses buy goods for reselling, manufacturing organisations procure goods for to facilitate production and so on. Therefore, there are several kinds of buyers who purchase goods and services - each having a different set of practises and procedures for securing their purchase. In order to understand a market, it is therefore essential to classify the markets on the basis of the kind of buyer. A market may fall into one of the following two, broadly-defined, groups:

- 1) Consumer markets
- 2) Organisational markets

Let's take a look at these two types of markets in detail.

Consumer Markets

When we talk about consumers, we mean all the individuals and households who purchase goods and services for their own personal consumption. Therefore, the consumer market consists of buyers who buy goods for their own household use. The purchasing done in such a market is strictly to satisfy personal, non-business needs/wants.

For example, an individual buys goods such as toiletries, biscuits, meals etc for his/her personal consumption or family consumption. On the other hand, when an individual purchases goods to resell or for further production, this individual does not belong to the consumer market. A characteristic of the consumer market is that these final consumers are spread throughout the country and are numerous in number. Such consumers also vary by age, income, level of educational achievement, tastes and preference, etc. Consumer purchases are influenced by a number of factors, such as cultural, social, personal, economic, and the psychological characteristics of the buyer. The consumer buying process consists of five stages:



Organisational Markets

There are three types of organisational markets:

- 1) The Industrial Market:** Industrial markets consist of all individuals and organisations which purchase or acquire goods and services that are used, either directly or indirectly, for the production of *other* goods and services which are then either sold, rented or supplied to others. For example, a sofa manufacturing factory purchases raw materials such as cloth, wood, cushions etc. This factory then produces the sofas and sells them. In this example, the firm purchased the raw material to use for further manufacturing of sofas which are meant for sale.

Major types of industrial markets include the following:

- i. Agriculture, forestry and fisheries;
- ii. Mining;
- iii. Manufacturing;
- iv. Construction;
- v. Transportation;
- vi. Communication;
- vii. Public Utilities;
- viii. Banking, finance, insurance;
- ix. Services.

- 2) **Reseller Market:** The reseller market consists of individuals and business organisations which procure goods that are resold to either industrial buyers or the final consumer of the product. If the reseller is a small wholesaler or a retail outlet, the purchasing process is carried out by just a few individuals.

However, if the reseller is a large-scale reselling organisation, the purchasing is carried out by a dedicated purchasing department. And if the product being bought is a new product item, the buying process is similar to that of an industrial organisation, discussed previously. Likewise, in the case of standard items which have already been bought before, the purchasing process consists of standard operating procedures for reordering and renegotiating contracts

- 3) **Government Market:** The government market is made up of governmental agencies (such as, central, state, and local bodies), that procure goods for the government. Governmental agencies procure a wide range of goods and services. Every product bought by the government has to fulfil specific criteria regarding the quantity, quality, price and source of the purchase.

Generally, governmental purchases are carried out through a tendering process - the tender being awarded to the supplier offering the lowest price. A unique characteristic to government buying is that government purchases are overseen by auditors and other interested parties. Auditors and controllers ensure that the proper procedure is followed. The media is also interested in such purchases and investigates to see how the public wealth is being spent. Because government organisations are accountable to the public, they have to follow a strict procedure which generally includes a lot of paperwork. A number of forms/contracts must be completed and the approval of a number of authorities must be sought before any purchase can be made. Marketers must find a way to get through this red tape.

When dealing with an organisational market, there are a number of things we must consider that we do not have to consider with the consumer markets:

- i. Industrial organisations make their purchase decisions on the basis of reducing costs and increasing profits. These organisations set certain criteria that the products must match and then go out into the market to purchase the products.
- ii. More people are involved in the organisational buying process than the personal buying process. Each individual involved in the organisational buying process has a different responsibility and different criterion for their purchase decision.
- iii. The organisational buyers have to follow formal policies, procedures and standard operating procedures established by their organisations.
- iv. The buying process involves paperwork and formalities, such as request for quotations, proposals, purchase, contracts etc., which add another element to the buying process not found in consumer buying.

The Main Features of Organisational Markets

There are certain aspects of the industrial market that differentiate it from the consumer market. These aspects are described below:

- 1) **Fewer Buyers:** Generally speaking, there are fewer organisational buyers than there are household buyers. Therefore, an industrial marketer normally deals with a smaller market than a consumer marketer. For example, if a tyre manufacturing company wants to sell its tyres in the industrial market, it may focus its attention on one of the larger car manufacturing brands. When the same company wishes to sell tyres to end consumers (vehicle owners), it may have to somehow contact thousands of car owners.
- 2) **Larger Buyers:** Organisational buyers usually need a larger quantity of products than household buyers. Therefore, industrial buyers are large-scale buyers. Even in the industrial buyer market, some larger companies will account for a greater proportion of the purchases. In such industries as automobile, electronics, toiletries, tobacco etc., a handful of the larger manufacturers account for the majority of the output. These industries account for a major share of raw material brought in the market.
- 3) **Geographical Concentration:** In contrast to consumer markets, industrial markets are not geographically spread out. The consumers in this market will be centred on a few geographical locations like major cities. As a result, the marketing networks for industrial markets do not need to be spread throughout the country.

- 4) Derived Demand:** The demand for industrial goods is derived from the demand for consumer goods. For example, in the fashion goods industry, the demand for cotton will depend on the demand for clothes. As the demand for clothes rises and falls, the demand for cotton will rise and fall as well. Therefore, the demand for industrial goods is considered derived demand
- 5) Inelastic Demand:** The price elasticity of demand for industrial goods is lower than it is for consumer goods. This means that the quantity demanded is not affected as much by the price of the goods. For example, in the fashion industry, cheaper cotton will not necessarily cause an increase in the purchase of cotton from a clothing manufacturer. However, if the demand for clothes from the end consumer increases, there will be a higher demand for the cotton for manufacturing those clothes. Similarly, an increase in the price of cotton will not necessarily decrease the demand for cotton, unless a cheaper substitute is available or there is a way to use *less* cotton for the same output of clothes. Demand is especially inelastic in the short run - it is nearly impossible to change output in the short run. Similarly, demand is also inelastic for industrial goods that make up a small portion of the total production cost of the product. The price will have an impact in terms of which producer to buy from, although the buying quantity will not be impacted.
- 6) Fluctuating Demand:** The demand for industrial goods is more volatile than the demand for consumer goods. This phenomenon is especially pronounced in the demand for industrial equipment such as plant and machinery. This is because as the demand for consumer products increases, the demand for industrial equipment will increase by even more. And when the demand for consumer goods decreases, the demand for industrial equipment will likewise decrease by even more. This phenomenon is known as the acceleration principle in economics.
- 7) Professional Purchasing:** Most organisations have professional buyers staffed in their purchasing departments. Additionally, there are professional trade journals that can guide the purchasing decisions of these professional buyers. Consumers, however, do not have this level of support and therefore do not buy as carefully. Furthermore, in industrial purchasing there may be specialists involved in the purchasing department for the purchase of complex goods. Purchase committees may involve several people from a number of different departments, which may include experts and individuals from senior management.
- 8) Miscellaneous Characteristics:** Some additional characteristics must also be taken into account:

- i. Direct Purchasing:** Industrial buyers will more likely buy directly from the producers of goods/services, instead of buying through a middle man; this is especially true for goods/services, that are complex or technical.
- ii. Reciprocity:** Industrial buyers will usually buy from suppliers who will in turn buy from them. For example, a truck manufacturer will most likely buy steel from a company which buys its vehicles. Even in this reciprocal buying, the buyer will make sure it the supplies at a competitive price, of proper quality and service.
- iii. Leasing:** Organisational buyers are most likely to lease their equipment instead of paying the full amount up front. This happens with computers, machinery, packaging equipment, heavy construction equipment, delivery trucks, machine tools and automobiles. Leasing equipment has a number of advantages, which include reduced upfront investment, the ability to purchase the most up-to-date products and certain tax advantages. The advantage for the leaser is that it gets more income by being able to sell to more consumers, who may not otherwise have been able to afford the products.

Major types of buying situations

An organisation buyer will usually encounter three major types of buying situations:

- a) Re-buy:** Re-buying the product from the same supplier is a fairly simple decision
- b) Modified re-buy:** This is when the same type of product is bought from the same supplier, but the product specs i.e. quality, is different. New terms have to be agreed and research may need to be carried out.
- c) New Purchase:** A new purchase is when products *and* suppliers need to be researched and new contracts need to be drawn up.

What is Market Segmentation?

In the real world, both suppliers and buyers will exhibit a lack of homogeneity. For suppliers, this lack of homogeneity may be the result of factors like differences in production equipment, processing or production technology, level of skilled workforce and varying availability of raw material. All these factors and more may cause heterogeneity. As a result of these imperfect markets - markets in which firms lack uniformity of size and product - are common. Segmenting the market may help reduce this problem to some extent.

Now, let's discuss market segmentation. As already discussed, a market is defined as the set of all actual and potential buyers. This means that the buyers in a given market will be seeking products for the same function. However, these buyers will have different criteria to evaluate how a product will fulfil the function for which it is meant. This means that within one overall market, there will be submarkets which differ from one another. This lack of homogeneity within the overall market can be attributed to differing buying habits, purchasing power or differences in the motive for buying a product. It is due to this reason that it is necessary to divide the overall market into submarkets, which help ensure successful marketing of the product.

This process of dividing the overall market into sub categories based on differing buying criteria is known as market segmentation, with each market segment being homogenous in all significant aspects, unlike the overall market.

According to the above discussion, we can now say that a market segment refers to a submarket of the overall market which is homogenous in all significant aspects. Market segmentation allows the marketer to have multiple marketing strategies - one for each segment of the market.

A market segmentation strategy would begin by the marketer first dividing the overall market into sub-segments, in accordance with the buying behaviour and other key aspects of the intended customer. This would obviously involve first identifying these customer groups. Market segmentation would also allow focusing the marketing strategy towards the segment that yields the highest returns on effort and investment.

There are three other strategies in marketing which may be pursued, these are:

- 1) Undifferentiated Marketing;
- 2) Differentiated Marketing;
- 3) Concentrated Marketing.

In undifferentiated marketing, no segmentation is carried out; just one marketing programme is followed. Differentiated marketing involves designing separate marketing programmes for each segment. This is usually an expensive approach to follow, since it requires customisation of the product and promotional material for each segment of the market. This will of course also increase the administrative costs of the business. Unless the segment is big enough to justify the cost, these customisation costs may be a burden on the marketer. Finally, in concentrated marketing, the producer concentrates its efforts on a few lucrative segments and ignores the rest.

Of the above-mentioned strategies, homogenous marketing is best-used for a market which is homogenous; in a heterogeneous market it is best to use either a differentiated or a concentrated marketing approach. The marketing strategy deployed will also depend on the current stage of the product life cycle. In the initial stages of the product life cycle, an undifferentiated marketing strategy is suitable to help build demand. In the later stages, especially when the market is complicated with many product offerings, either an undifferentiated or a concentrated approach is best.

Market segmentation and product differentiation are two separate concepts and should not be mixed up. Product differentiation is usually carried out in homogenous markets, where the product offering is quite standard. Product differentiation is carried out to set one product apart from the other products in the market, in order to eliminate competition.

However, to reduce competition, in addition to product differentiation, a strategy of market segmentation may also be carried out. Market segmentation may be carried out to increase a share of the market. It may be said that the product differentiation seeks to secure a layer of the market cake, whereas market segmentation strategy strives to secure one or more wedge-shaped pieces. Unlike product differentiation, market segmentation is only a short-term strategy to help capture more market share.

The Importance of Market Segmentation

When a product is marketed, it is nearly impossible to market to all buyers in a given market. There are many buyers, widely scattered, and with varying requirements and buying habits. Some producers may be able to serve one segment better than the others. Every competitor in the market has to identify the market segment that it can most effectively serve.

Market segmentation has the following advantages:

- I) Instead of wasting resources on marketing to the entire market, you can concentrate your marketing efforts on one specific segment.
- II) Because a single segment is being served, the product offering can be customised to the particular requirements of that segment of the market.
- III) It helps to pay proper attention to important aspects and areas.
- IV) By segmenting the market, you can adopt different policies that are suited to each segment of the market.
- V) Advertising and promotion can be customised towards each segment, thus enabling the efficient use of advertising channels.
- VI) Overall, it is a more efficient use of the marketing resources
- VII) Every one of the 4 “Ps” of the marketing mix (product, price, promotion, and physical distribution) can be customised to suit the target market in mind.

Requirements for Segmenting a Market

If a market segment is to be useful, it must exhibit the following qualities:

Measurability: Measurability is the degree to which the market segment can be validated. Certain segment characteristics are difficult to measure. For example, it is difficult to measure the number of teenagers who smoke as an act of rebellion against their parents.

Accessibility: Accessibility refers to how easily a market segment can be reached and served. For example, a fragrance manufacturing company may discover that the heaviest user segment for its products is single men, who are often out late at night. Unless all such men live in a single geographical location, it will be very difficult for this company to identify them. Therefore, when segmenting a market, the marketer must ensure that each segment is easily accessible and reachable.

Substantiality: Each segment should be sizeable enough to ensure a return. The segments should be large enough to ensure the largest possible homogenous group worth going after with a single definite marketing programme.

For instance, for a car manufacturer, it may not be possible to manufacture vehicles for consumers who are over seven feet tall, as the size of this specific niche is very small.

Actionability: This refers to the ease with which marketing programmes can be created and executed for a given segment of the market. For example, a tourism company may identify seven segments of the market, though their staff-force may not be large enough to serve all seven.

Bases for Segmentation

As already discussed, market segmentation involves dividing a single heterogeneous market into sub – parts, which are homogenous in all major respects. However, there must be a basis for which the market is segmented. In order to segment the market, various variables may be used. As discussed above, such markets may be classified as either consumer or organisational markets. Some of the widely used characteristics for segmenting these two markets are discussed below.

Bases for Segmenting Consumer Markets

Broadly, there are four bases for segmenting consumer markets.

They are:

- 1) Geographic;
- 2) Demographic;
- 3) Psychographic;
- 4) Behaviouristic Factors.

Geographic Segmentation:

Segmentation on the basis of geography involves dividing the market into unique geographic units such as countries, states, regions, cities, neighbourhoods, etc. The company will decide to focus on a few geographical locations when the market is segmented in this manner and customise its offerings for the customers of each location. The customisation will take into account the preferences and needs of the customers.

Demographic Segmentation

Demographic segmentation is when the market is divided into sub groups based on demographic characteristics such as age, gender, family size, income level, occupation, level of education, religious beliefs, race, nationality etc. Demographic characteristics are the most commonly-used basis for segmenting a market. This is because consumer preferences are usually associated with demographic characteristics. Even when the target market is described in non-demographic terms (for instance, a personality type), it should be linked back to demographic characteristics, in order to establish the size of the target market and to reach it effectively. Another reason for using demographic characteristics is that these variables are easy to measure. Some commonly-used demographic bases are discussed below:

- 1) **Age and Life Stage:** The needs of consumers vary with age. For example, newborn infants differ from toddlers in terms of food consumption and what they wear. A toy manufacturer may capitalize on this and decide to segment the market into 12 segments, based on the age of the consumer. Such a strategy of segmentation will allow the customer to identify the toy that best-suits their requirement, simply by considering their age.
- 2) **Sex:** Market segmentation based on gender is especially prominent in products like clothes, cosmetics, magazines etc. You may occasionally see gender-based segmentation in other products of various types. Another example of a product which has just recently started to segment the market is the motorcycle industry, which has in the past only targeted the male segment of the population. However, with the ongoing increase in the number of women who are now riding motorbikes, some manufacturers have started to design scooters and other bikes with women in-mind.
- 3) **Income:** Income-based market segmentation is common in industries like automobiles, clothing, cosmetics and travel. Other industries use income as a basis to segment the market as well. The market may be segmented in terms of low, middle, and high income groups. Price differentiation may be used to target each group. Generally speaking, towards the lower income groups as the price goes up, other non-economic considerations or bases become more

important. As the income goes up, other non-economic considerations or bases have a greater influence.

Psychographic Segmentation

Psychographic segmentation is when a market is segmented on the basis of social class, lifestyle, personality characteristics etc. Individuals within the same demographic group may exhibit very different psychographic profiles.

Some of the more commonly-used psychographic characteristics are outlined below:

- 1) **Social Class:** Social class may influence an individual's buying habits for products like cars, clothing, leisure activities etc. There are many companies that produce and market their products based on social class. Marketing strategies are then created to appeal to consumers belonging to one of these social classes.
- 2) **Lifestyle:** Lifestyle influences people's interest in various goods and services. In fact, consumption of certain goods and services itself portrays a certain lifestyle. Lifestyle is increasingly becoming an important psychographic basis of market segmentation. For example, a manufacturer of blue jeans may design jeans styled for a specific male group. Each group may have its own requirements in terms of the design of the product, price, advertising appeal, availability, distribution, etc. Unless the producers can adopt a unique marketing strategy for each group, the product may not appeal to anyone at all.
- 3) **Personality:** Marketers also use personality variables to segment markets. They design their products with appropriate brand images that correspond to consumer personalities.

Behaviouristic Segmentation

When considering behaviour segmentation, the market is divided into segments on the basis of their knowledge, attitude, use or response to a product. Many marketing professionals are of the opinion that behavior-based characteristics are the best starting point for identifying market segments. Some of the most commonly used behavior-based characteristics are discussed below::

Occasions: The first such characteristic is the occasion or event for which a consumer purchases a product. An example of this is when tourism services are sold in accordance with festivals and occasions – honeymoons, summer vacations etc. Similarly, a tourist bus operator can use occasions to segment the market and serve one such market segment. Occasion segmentation can help firms build up product usage. For example, mineral water may be commonly consumed during a tour. A mineral water company may therefore want to promote its product in tourist areas.

- a) **User status:** Many markets can be segmented into non-users, ex-users, potential users, first-time users and regular users of a product. Companies with the largest market share will be most interested in potential users. Potential users and regular users require unique marketing strategies and promotion strategies.
- b) **Usage Rate:** Markets may also be segmented on the basis of usage. For, example you may segment the market in terms of light, medium and heavy user groups. Another name for this is volume segmentation. An interesting feature of such a segmentation strategy is that heavy users, while accounting for a small proportion of the market, account for a large proportion of consumption of the product.
- c) **Loyalty Status:** As you may be aware, consumer loyalty towards brands, products and retailers is a commonly found trait in most markets. A market, therefore, may also be segmented in terms of consumer loyalty. Let's consider brand loyalty - suppose there are five brands A,B,C,D, and E. Buyers can be divided into four groups, according to how loyal they are towards a brand.
- i. **Hardcore Loyalists:** These are the consumers who only buy one brand, all the time. Thus, a buying pattern of A, A, A, A, A, A, represents a consumer who is a hardcore loyalist to brand A.
 - ii. **Soft-Core Loyalist:** These are consumers who will purchase from two, maybe three, brands all the time. Thus, a buying pattern of A, A, B, B, A, B, represents a consumer with a divided loyalty between A and B.
These are consumers who shift their loyalty from one brand to another. The buying pattern A, A, A, B, B, B, would suggest a consumer who is shifting brand loyalty from A to B.
 - iii. **Switchers:** These are consumers who have no loyalty towards any given brand. The buying pattern A,C,E,B,D,B would suggest a non-loyal consumer. Every market consists of the above-mentioned four types of buyers and a customised marketing and promotional strategy is required to reach each of these market segments. A brand-loyal market is one with a high proportion of buyers who exhibit hard-core brand loyalty. A good example of this is the market for toothpastes, which exhibits a high degree of brand-loyal consumers. Competitors operating in a brand loyal market face a difficult challenge in gaining market share, likewise companies trying to gain a foothold in such markets also face a difficult time entering such markets in the first place .
- d) **Attitude:** Consumers of a product can also be segmented by the degree of their enthusiasm for the product. On the basis of attitude, five types of consumers can be identified: enthusiastic, positive, indifferent, negative and hostile.
A door-to-door campaign can assess the general consumer attitude towards your product; sales personnel, who are involved in the campaign, can assess the attitude of the households and decide on the time to be spent with them. Accordingly, more time may be spent with enthusiastic prospects reminding them to buy. Likewise, spending excess time with negative or hostile

prospects may be a waste of time. To the extent that attitudes are correlated with demographic descriptions, the organisation can increase its efficiency in reaching the best prospects.

Bases of Segmenting Organisational Markets

Many of the grounds for segmenting consumer markets discussed above can also be used for segmenting organizational markets. Organisational markets can be segmented geographically and by several behaviouristic variables, benefits sought, user status, usage rate, loyalty status and attitudes. The following three grounds for segmentation are the most commonly used:

- 1) Type of customer;
- 2) Size of customer;
- 3) Type of buying situations.

Type of Customer

A common way to segment industrial markets is by identifying the end users i.e. the consumer. Different end users/consumers seek different benefits from the product and may in turn be approached using a different marketing mix. Different end-users often seek different benefits and can be approached with different marketing mixes. As already discussed, some of the major industrial markets include:

1. Agriculture, forestry, fisheries;
2. Mining;
3. Manufacturing;
4. Construction;
5. Transportation;
6. Communication;
7. Public Utilities.
8. Banking, finances, insurance;
9. Services.

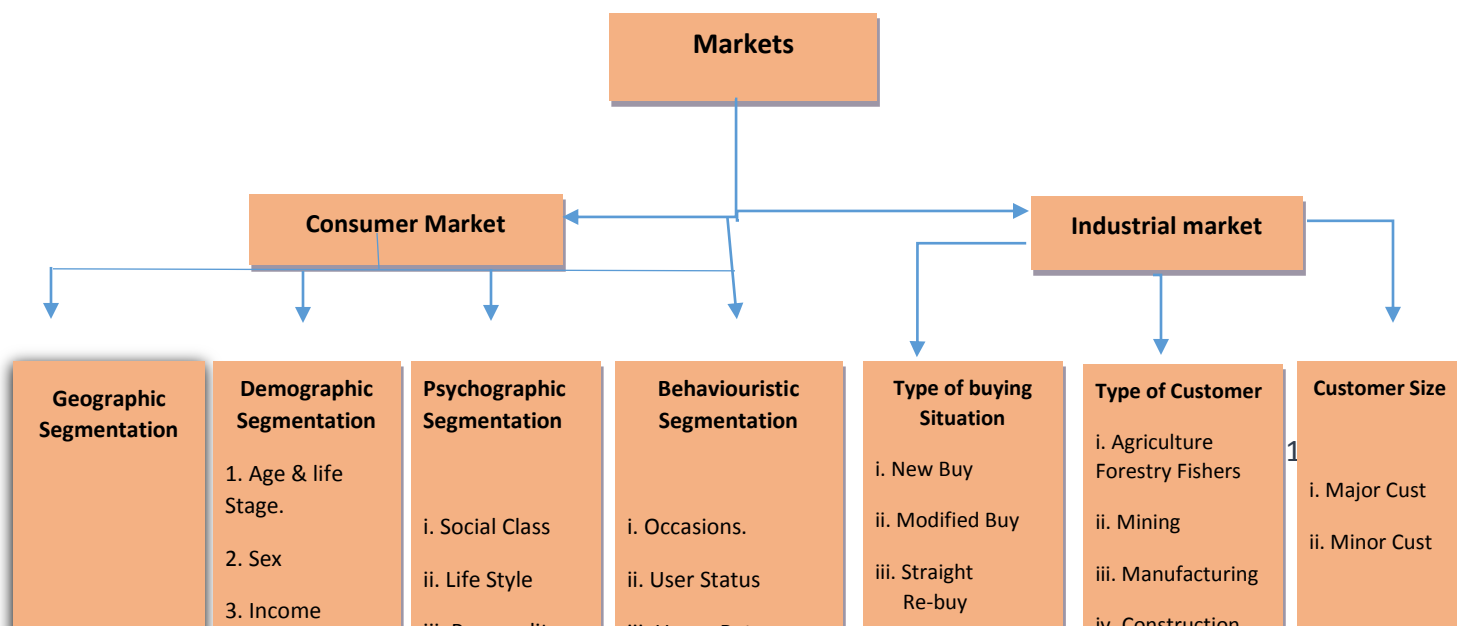


Figure 3.1

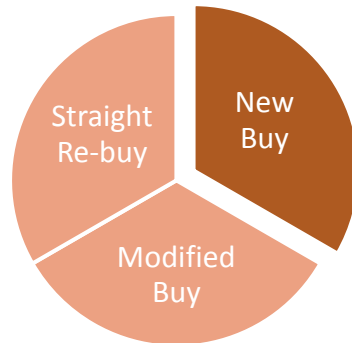
This above-mentioned classification is an accepted standard known as Standard Industrial Classification (SIC) Code. Each of these markets can be further divided to very minute levels, in accordance with which directories of industries are published.

Customer Size

Another variable that may be used for segmenting organisational markets is the size of the customer. A commonly seen practise in many companies is separating departments in terms of those dealing with small customers and those dealing with larger customers. For example, Steelcase, which is a large office furniture manufacturer, divides its customers into two groups - Major Accounts and Dealer Accounts. Accounts of large and reputed companies are dealt with by Major Accounts. These accounts are looked after by National Account Managers who work with District Field Managers. Smaller accounts are categorised as dealer accounts. These accounts are looked after by the Field Personnel who work with the franchised dealers that sell Steelcase products.

Types of Buying Situations

We have already gone over the three types of buying situations:



- 1) New Buy;
- 2) Modified Buy;
- 3) Straight Re-buy.

These buying situations are different from one another in a significant way. An industrial seller can segment their market on this basis of buying situations and adopt marketing strategies accordingly. Look at Figure 3.1 carefully for a summarization of the bases of segmenting the market.

Further Reading:

- ✓ Edward Frazelle, (2002), World-Class Warehousing and Material Handling
- ✓ Myer Kutz, (2009), Environmentally Conscious Materials Handling
- ✓ Riccardo Manzini, (2012), Warehousing in the Global Supply Chain
- ✓ Gwynne Richards, (2011), Warehouse Management : a complete guide to improving efficiency and minimizing costs in the modern warehouse