

Marketing systems and Environments: Segmentation and Targeting

Qualification of the market

- **Potential Market:** number of costumers that is expressed by the reaching out to the infinite of the marketing investment.
- **Available Market:** consumers that are interested, have the money and the possibility to access to the offer present on the market.
 - Qualified available market: consumers of the available market that have also the requirements needed by the offer (e.g. the age)
- **Served Market:** it is the part of the qualified available market to which the company decides to focus on.
- **Penetrated market:** consumers that, belonging to the served market, truly buy the product.

Qualification of the market

Potential market

All the possible consumers of the product/service, that can become effective by an adjustment of the offer and/or an increase in the marketing investment (product, price, communication, distribution, ...)

Served market

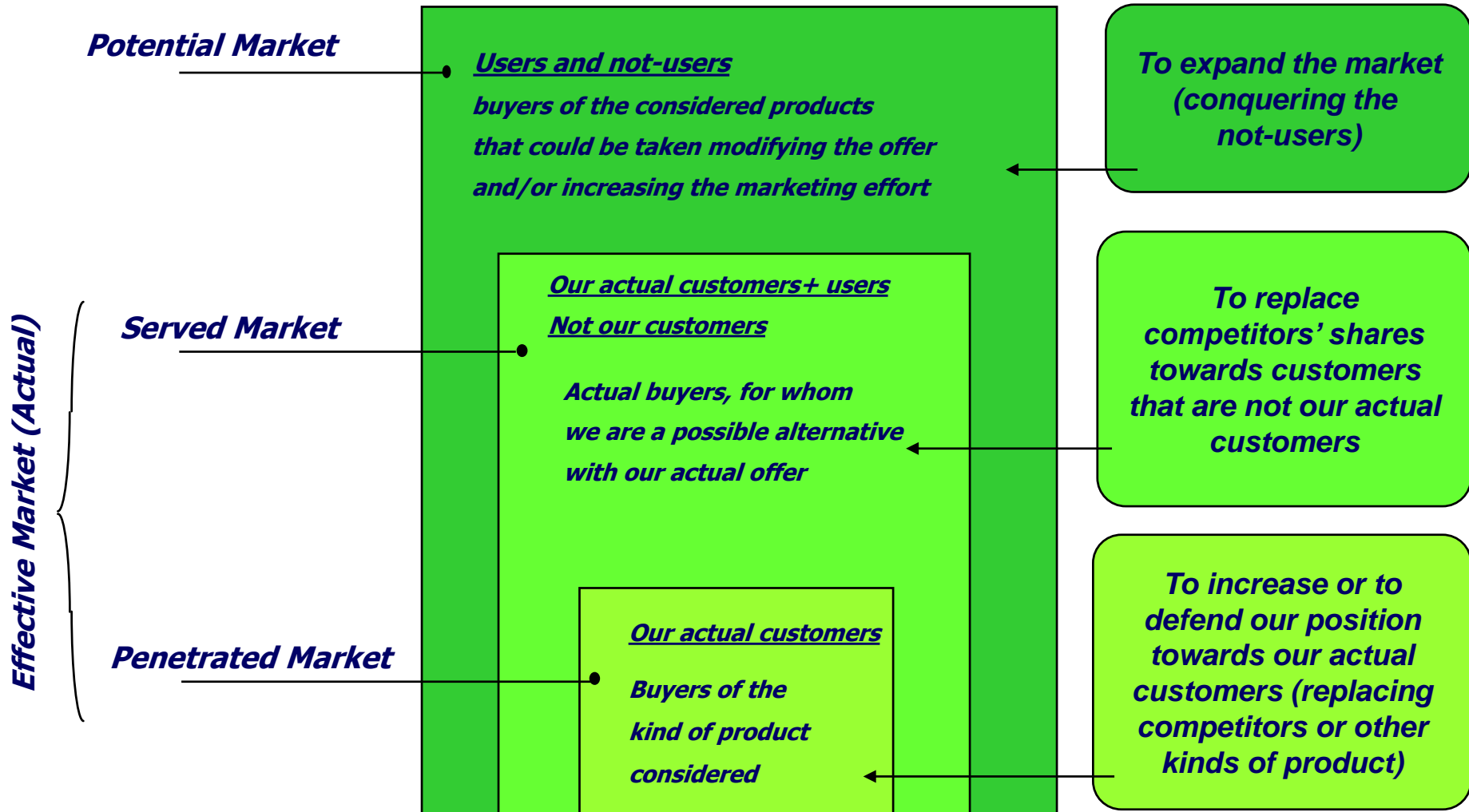
Consumers (our customers and all the not-customers) for whom we are a possible solution either with our actual offer or with minor adjustments. Namely, customers that «we try to serve»

Covered market (or penetrated)

Our actual customers

Qualification of the market

What is our goal?



Why segmenting?

It is defined as objective market (or target market) a well-determined group of customers for a product/service on which the offer is focused.

Why segmenting?

- If the environmental space is excessively extended, the resources of the organization will be unable to dominate it.
- A very restricted environmental space won't be sufficiently rich of resources for allowing the organization the economic survival.

Segmentation vs Undifferentiated marketing

Undifferentiated marketing

- By this approach, the enterprise is addressed to the internal market with a unique strategy of large validity → the offer is addressed to all the consumers (e.g. Coca Cola, Microsoft).

Segmentation

- By this approach, the enterprise identifies, within the universe of consumers, homogeneous groups (according to some features), to whom a special commercial offer (in terms of marketing mix) can be addressed.

Segmentation strategies

The segmentation strategy can assume two aspects:

Concentrated marketing

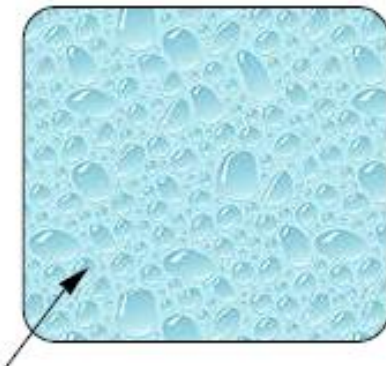
- When the enterprise is oriented on a well-defined segment (e.g. Ferrari).

Differentiated Marketing

- When the enterprise is oriented on multiple segments, defining a peculiar commercial offer for each segment: the offer is characterized by a marketing mix depending on the choice about the positioning within the competitive system.

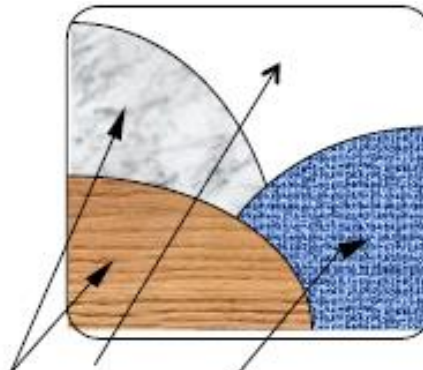
Undifferentiated vs Differentiated vs Concentrated Marketing

Undifferentiated



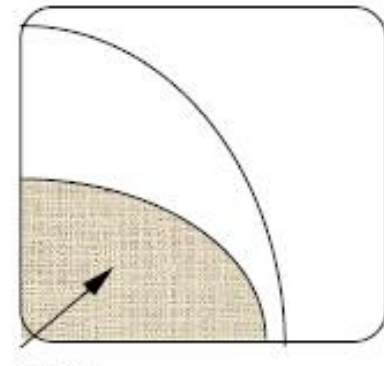
Unique Value Proposition for the whole market

Differentiated



Multiple and Different Value Propositions for the various segments

Concentrated



Unique Value Proposition specific for one segment

Segmentation: definition

Segmentation can be defined as:

- *The marketing process through which the enterprise divides a wide market in different sub-groups characterized by specific demand profiles, but sufficiently homogeneous inside them, and, on the basis of those profiles, the enterprise develops peculiar marketing actions in order to satisfy their needs as well as possible.*

Characteristics of the segments

Measurability: ... It is possible to measure the dimension and the purchasing power in order to establish whether it is appropriate to define a specific marketing strategy.

Accessibility: ... possible to reach, in real terms or reasonably potential. The potential of the market can be good, but it can be not possible to reach the consumers with reasonable costs of communication or distribution or personal selling.

Homogeneity / Heterogeneity: ... homogeneous respect to at least one of the segmentation bases chosen; heterogeneous respect to other segments similarly evaluated.

Characteristics of the segments

Importance: ... Sufficiently profitable or it must have a potential that justifies the specific marketing action. The enterprise will develop a specific strategy only for the segments which present actual revenues or potentials greater than a certain minimum threshold such as to generate a contribution margin sufficient to cover the additional costs of a specific marketing action.

Characteristics of the segments

Duration: ... exploitable for a certain time. This parameter is incorporated in the concept of potential seen so far, because what matters is the operative margin cumulated in the time. However, the segments that are born and die rapidly are also high-risk subjects. It is hard to set the period of time under which the duration is judged as inconvenient. The elements that must be taken into account are a lot. The time necessary for the market researches and for the launch of the product, the production and distribution costs, the pricing strategy adopted, the trend of the demand curve.

Segmentation methods

Two macro-categories of approaches to the segmentation process:

Statistical/mathematical:

- They use statistical/mathematical techniques and (factor analysis, cluster analysis, conjoint analysis)

Heuristics:

- Empirical methods for the research and selection of the segmentation bases (successive elimination approach)

The goal is to build a matrix of products - markets (or segments - value propositions).

Successive elimination approach (Porter, 1987)

1. Identifying the significant bases for the specific case from a check-list of segmentation variables, divided into categories:
 - Buyer's characteristics
 - Distribution channels
 - Buyer's geographical location
 - Variety of product
2. Exploring creatively the existence of new or different bases because they may lead to discover new segments
3. Defining the modes in which the bases are presented: to mate the bases 2-2, using the graphical tool of the matrix

Successive elimination approach (Porter, 1987)

4. Deleting the contradictions or the not significant intersections
5. Identifying each possible variety of products creating suitable conditions in terms of function of usage
6. Building the matrix products/markets

Segmentation bases (example)

Geographical aspects

Country and origins

National / International Markets

Climate areas

Degree of development of the country

Political / economic regime

Buyer's intrinsic characteristics

SIC or similar classifications (sector)

Number of employees

Strategies

Value added of the production

Technological refinement

OEM / Final user

Property

Segmentation bases (example)

Distribution channels

Direct sale / by distributors

Exclusivist / Not exclusivist

Purchasing policy of the distributor

Organizational aspects

Purchasing policies

Process and purchasing procedures

Average purchasing order

Purchasing frequency

Buyer's personal characteristics

Personality, character, attitude

Culture / decision style

Skills

Segmentation variables of the product (example)

Intrinsic characteristics of Products/Services

Functionality / performances

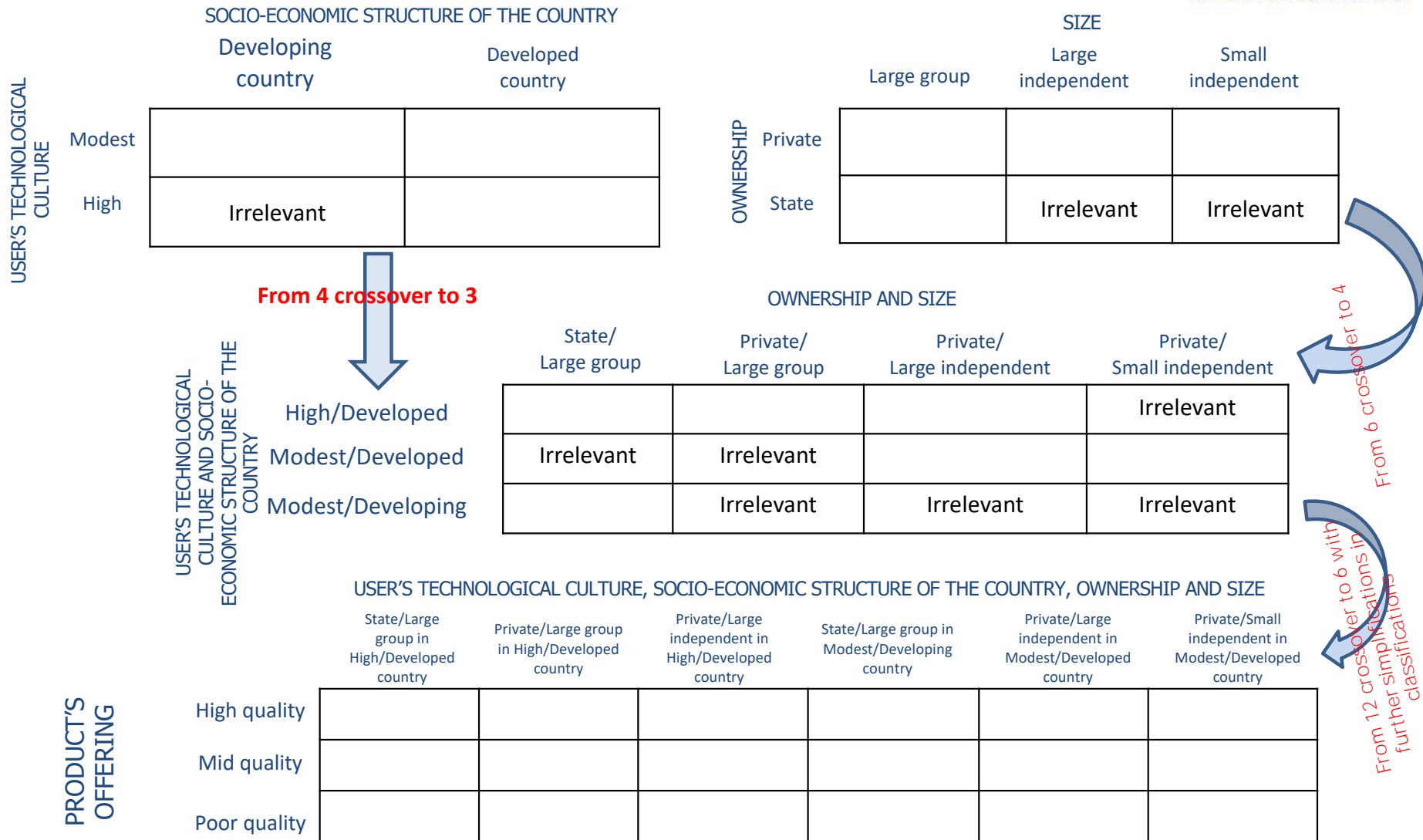
Dimension

Technology used/ operative characteristics

Price

Support

Successive elimination approach (example)



Pros and limits of the segmentation

The segmentation of the market can help the enterprise in various areas both for the offer (greater possibilities to create entrance barriers thanks to the differentiation of the offer, greater opportunities in terms of control of the marketing action) and for the demand (it satisfies better the customers' needs, proliferation of organizational structures to control the different segments).

However, the segmentation requires an important effort and it implies the responsibility to satisfy the customers, to keep the positions under the technical profile and the development of products/services, beyond the necessity to manage possible variations in terms of demand.

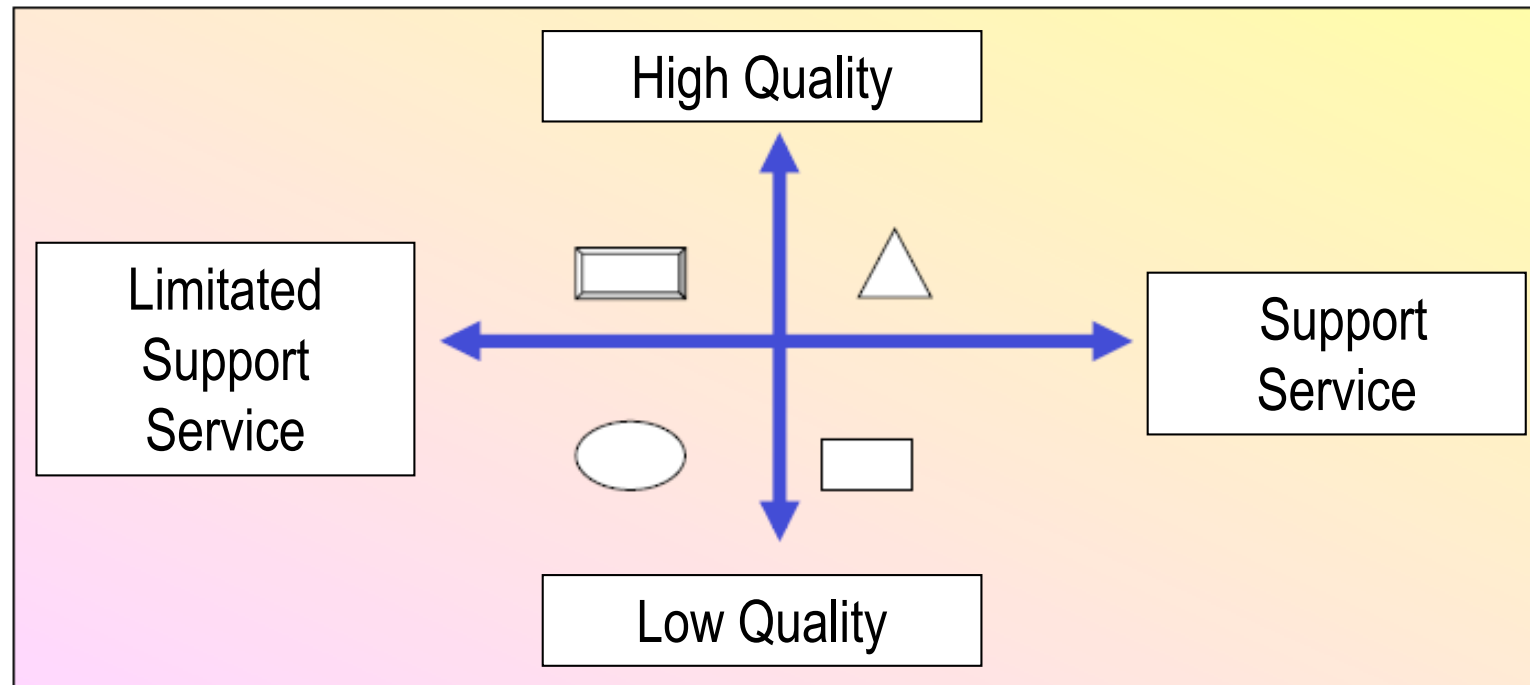
Evaluation time of the segment

- External macro-environment analysis (Steep analysis)
- External micro-environment analysis (5 forces model by Porter)
- Internal analysis (Value Chain model by Porter)
- Analysis of the differential competitive advantages and opportunities (SWOT analysis)

Positioning

- Within the segment, the competitors differ for some significant aspects with respect to the customer's eyes.
- The enterprise establishes its “competitive positioning”, namely the way in which it wants to be located respect to its competitors in the consumer's mind, and can use one or more “*perceptual maps*” in order to represent the attributes with whom the product/service is perceived significant by the customer in the purchasing decision.
- Such attributes are explicit in pairs.

Perceptual Maps



Target Market Strategy

Choosing the set of customers requires to develop a target market strategy, and thus underlines the demand aspect. The positioning with respect to the competitors means, instead, deciding when to differentiate the offer.

The logical sequence of the steps which lead to the coupling of the marketing mix with the objective market is:

1. Identification of the segments
2. Choice of the more convenient segments
3. Identification/choice of the positioning criteria
4. Decision of the most suitable strategy to cope with the segment (target market strategy) with the subsequent marketing mix.