Market segmentation

Market segments

Market research provides a variety of information about the people who may be interested in buying a business's products. For example, it might tell a business that a new car will mainly be bought by women aged 18-35. It might indicate that older people have bought more copies of a magazine than younger people in the last year. Producers may use this information to identify people with similar needs. Breaking down a market into sub-groups with similar characteristics is known as MARKET SEGMENTATION. A business can then target these groups and develop products and services for each of them.

Health clubs in the UK make use of segmentation. For example, daytime users tend to be younger mothers with children and older retired people. Clubs often provide facilities such as creches for such members. Members who visit in the evening tend to be people who work in the day and want to exercise at night.

The benefits of market segmentation

There are a number of benefits of market segmentation that lead businesses to attempt to identify different market segments:

- Successful market segmentation should allow a business to sell more products overall and perhaps increase its profit.
- By identifying different MARKET SEGMENTS, a business should understand its consumers better. Greater knowledge about its customers will allow a business to vary its products to suit their needs better.
- It might enable a business to target particular groups with particular products.
- It can help to prevent products being promoted to the wrong people. This would be wasteful of resources and might possibly lead to losses.
- It might allow a business to market a wider range of differentiated products.
- Customers may feel that their needs are being better targeted and develop loyalty to the business.

Types of market segmentation

There are four main ways in which consumers tend to be segmented:

- geographically - by where they live;
- demographically - by their gender, social class, age, income, ethnicity or religion;
- psychographically - by their lifestyle and personality;
- behaviourally - by how they act, for example whether they make repeat purchases, buy on impulse or want high quality products.
Geographic segmentation

This might include considering the region of a country where consumers live and the nature of the region, e.g. rural, urban, semi-rural or suburban. It may also consider the type of house, road or area of a city that people live in. This method can be especially useful in large or highly culturally diverse markets, where buying patterns are influenced by region. Businesses selling into the EU are likely to break this area down into more manageable segments. Many large businesses selling into global markets have different products for different countries or areas. For example, Nestlé has sold refrigerated profiteroles in France and a fortified drink called Milo with a malted taste in Japan. The Maggi and Crosse & Blackwell soups are adapted to suit different tastes, by varying the ingredients from one country to another. It may also be possible for a company to price goods differently in different markets. For example, car manufacturers sell the same cars at different prices in different countries in the European Union. The prices will depend, in part, on what they think customers are prepared to pay.

A drawback of geographic segmentation is the evidence that consumer tastes are becoming more uniform across geographic boundaries. This can mean that regional boundaries and national boundaries become less important in determining tastes. For example, 30 years ago the vast majority of supporters of Manchester United or Liverpool FC could be found within a 30 mile radius of the clubs. Today supporters of these clubs and consumers of their products can be found in large numbers in other locations such as the South East of England, Asia or Southern Africa.

Demographic segmentation

DEMOGRAPHY is the study of population. Demographic segmentation splits people up into different groups according to different characteristics.

Age Many businesses pay attention to the age of their customers. For example, the over-65s could be seen as one segment, while teenagers aged 14-18 could be seen as another. R&B CDs might be marketed to teenagers, whilst a ‘Hits of the 1960s’ CD may be more likely to be attractive to older buyers. The over-60s are of particular interest to business as this segment is

<table>
<thead>
<tr>
<th>Table 1: Socio-economic groups – IPA classification</th>
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<tbody>
<tr>
<td>Social</td>
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<tr>
<td>grade</td>
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<tr>
<td>A</td>
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<td>B</td>
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<td>C1</td>
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<td>C2</td>
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<td>D</td>
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<th>Table 2: Socio-economic groups – Registrar General’s classification</th>
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<tbody>
<tr>
<td>Class</td>
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<td>1.1</td>
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<td>Class 2</td>
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<td>Class 3</td>
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<td>Class 4</td>
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<td>Class 5</td>
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<td>Class 6</td>
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<td>Class 7</td>
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<td>Class 8</td>
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</tbody>
</table>

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<thead>
<tr>
<th>Table 3: Financial Services and ABC1s</th>
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</thead>
<tbody>
<tr>
<td>• More than one-third of ABs and more than three in ten C1s borrow more than they save. Those with children are nearly twice as likely as those without to owe more than they have saved.</td>
</tr>
<tr>
<td>• ABs and C2s find saving easier than C1s, Ds and Es.</td>
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<tr>
<td>• Just over two-thirds of ABs, and almost two-thirds of C1s, expect to fund their children out of savings and investments.</td>
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<tr>
<td>• Around one-third of ABs and one-fifth of C1s have bought savings plans, investments or insurance over the telephone. Only three ABs and two C1s in 100 have bought them over the Internet.</td>
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<tr>
<td>• Only one AB in eight, and one C1 in 16, sets aside more than £200 a month to save for a retirement pension, in addition to National Insurance contributions.</td>
</tr>
<tr>
<td>• Almost one in five ABs, and nearly one in four C1s, puts less than £50 a month into a pension.</td>
</tr>
<tr>
<td>• ABs are less worried than other social groups about the accessibility of bank or building society branches, and so are less worried about branch closures.</td>
</tr>
</tbody>
</table>

Unit 14

growing as a proportion of the total population. The marketing of financial services for older people has become popular in recent years. So has a number of other products and service areas, ranging from specialist holidays to the development of retirement housing.

Gender Businesses may target either males or females. This is because men and women often have different spending patterns. Some car producers, for example, have targeted women in their promotional campaigns for smaller hatchbacks. Manufacturers of perfumes and related products have realised the growing market for personal care products among men. Major brand names such as Armani and Yves Saint Laurent, as well as sports companies, have produced a range of products geared towards males. Mobile phone manufacturers target a growing number of females buying the latest ‘technological gadgets’, by designing accessories to suit their requirements.

Social class Markets are often divided by social class. Tables 1 and 2 show two measures of social class used in the UK. For the 2001 population census, the Registrar General divided social class into eight areas. Classes are based on employment status and conditions. This division is usually used in government reports and surveys. The Institute of Practitioners in Advertising (IPA) divides social class into six categories. These are used to decide which group to target for promoting a product. Because of regular changes in the pay and status of different occupations, these categories are revised from time to time. For example, the

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**Table 4: Participation in selected sports during the past four weeks by sex and age, 2005/06**

<table>
<thead>
<tr>
<th>England</th>
<th>Men</th>
<th>Women</th>
<th>Percentages</th>
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<tbody>
<tr>
<td></td>
<td>16-24</td>
<td>25-44</td>
<td>45-64</td>
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<tr>
<td>Indoor swimming</td>
<td>16</td>
<td>18</td>
<td>10</td>
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<tr>
<td>or diving</td>
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<tr>
<td>Health, fitness</td>
<td>22</td>
<td>18</td>
<td>9</td>
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<tr>
<td>or conditioning</td>
<td></td>
<td></td>
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<tr>
<td>activities</td>
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<tr>
<td>Recreational</td>
<td>16</td>
<td>16</td>
<td>11</td>
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<tr>
<td>cycling</td>
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<td></td>
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<tr>
<td>Snooker, pool</td>
<td>34</td>
<td>13</td>
<td>7</td>
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<tr>
<td>or billiards</td>
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<tr>
<td>Keep fit,</td>
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<td>4</td>
<td>4</td>
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<tr>
<td>aerobics, dance</td>
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<tr>
<td>exercise</td>
<td></td>
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<tr>
<td>Outdoor football</td>
<td>43</td>
<td>14</td>
<td>3</td>
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<tr>
<td>Golf, pitch and</td>
<td>10</td>
<td>9</td>
<td>9</td>
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<tr>
<td>putt, putting</td>
<td></td>
<td></td>
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<tr>
<td>Jogging, cross-</td>
<td>11</td>
<td>10</td>
<td>4</td>
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<tr>
<td>country, road</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>running</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Trench bowling</td>
<td>9</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Darts</td>
<td>16</td>
<td>6</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Taking Part: The National Survey of Culture, Leisure and Sport, Department for Culture, Media and Sports.
Market segmentation

Registrar General's classification previously had only five classes. Research often breaks these categories down even further. For example, AB, C1, C2, D and E are sometimes used to highlight the differences between levels of management, and skilled and unskilled manual workers. The media often refers to ABC1s. It is suggested that some businesses are particularly interested in people who might fall into this category as they tend to have higher incomes and levels of spending. Table 3 shows information from a study about the attitudes of people in the ABC1 group to financial services. This could be used by banks, insurance or pension companies to decide which customers to target.

Income Although linked to some extent to the 'social classes' described above, income groups can be different. For example, a self-employed skilled manual worker, such as an electrician, may receive the same income as a middle manager. Similarly, a self-employed builder may receive the same income as or more than a professional. However, because of his or her occupation the two people will be in different social classes.

The population can be split up into income groups and targeted accordingly. So a Cartier watch, for example, is likely to be marketed at the highest income groups.

Religion Businesses may divide markets by religious groups. Food producers, for example, may specialise in producing Kosher food for Jewish people. Digital television has seen the growth of American style Christian television channels in the UK.

Ethnic grouping Markets can sometimes be segmented by country of origin or ethnic grouping. Radio stations have been geared towards African-Caribbean groups. Some products, such as clothing or hair accessories, are also geared towards this grouping.

A drawback of demographic segmentation is that consumers try to defy consumption patterns associated with their demographic groups. For example, young people from lower income groups may seek out expensive high status products, such as certain brands of designer clothes, that were initially marketed at high income groups.

Psychographic segmentation

Geographic and demographic segmentation have limitations. For example, there is a wide variety of spending patterns among females aged 16-18 living in Manchester. Yet people in this consumer group share the same gender, age and location. An alternative way of grouping customers is through psychographic segmentation. This groups customers according to their attitudes, opinions and lifestyles.

- Sports products may be aimed at those who are interested in 'extreme' sports such as skateboarding.
- Chocolate manufacturers have identified two categories of chocolate eaters. 'Depressive' chocolate lovers eat chocolate to unwind predominantly during the evening. 'Energetic'

chocolate eaters eat chocolate as a fast food and live life at a fast pace.

- People's attitudes to life may also be used to segment the market. Some pension funds are geared towards those who only want investments in 'ethical' businesses.
- Clothes may be geared at those who are interested in 'retro' fashions from earlier decades.
- Mobile phones provide services such as Internet access for business travellers.
- Travel companies target holidays at families with younger children.
- Certain newspapers are geared towards Labour voters, while others are geared towards Conservative voters.

One of the drawbacks of psychographic segmentation is that it can be difficult for businesses to collect data about the beliefs, attitudes and lifestyles of consumers. In order to do this they may require the help of specialist businesses.

Behavioural segmentation

Behavioural segmentation attempts to segment markets according to how consumers relate to a product. There is a number of different methods of behavioural segmentation:

Usage rate This is when consumers are categorised according to the quantity and frequency of their purchases. One example of this is British Airways, which established an 'Executive Club' to encourage and develop the custom of regular business travellers.

Loyalty Consumers can be categorized according to their product loyalty. The Tesco Clubcard, for example, which offers discounts to regular customers of Tesco supermarkets seeks to reward and encourage loyalty to Tesco and its products.

Time and date of consumption Consumers often consume particular products at particular times and dates. Businesses can take advantage of this in order to improve their marketing. So, for example, manufacturers of breakfast cereals, while recognising that their product will be primarily consumed in the morning, encourage consumers also to consume their products in the evening. Similarly, many bars and clubs seek to encourage different groups of consumers according to the time of the day. For example, Thursday nights are often for older singles and Friday nights for younger consumers in many such establishments.

Like other segmentation methods, a drawback of behavioural segmentation is that on its own it may fail to adequately capture a target market for a business. For this reason, in many cases a business might employ a variety of the segmentation methods explained above. So, for example, a manufacturer of luxury apartments may be interested in segments that included single men or women with no children, in the 30-40 age range, with high incomes that fall into social class AB. Because of the likely one-off nature of such a purchase, behavioural segmentation
Market segmentation and strategy

Certain businesses make little use of market segmentation. Some simply adopt an undifferentiated strategy towards marketing. They try to promote their product to the entire market, rather than to a segment. For example, a local newsagent will want to sell to the entire market. The nature of the service it offers means that this market will be local. But the newsagent won’t try to target young customers at the expense of old age pensioners, or professional customers at the expense of unskilled manual customers.

Equally, many businesses have little need to segment their markets. If a business is producing a commodity sold in bulk, like wheat, copper or oil, there is no need to produce specific products for specific segments of the market. Customers want to buy a standard product. It could also be that the cost of producing different products or services to satisfy different market segments far outweighs what customers are prepared to pay for the differentiation. Customers might prefer to buy a cheap undifferentiated product rather than an expensive one tailored precisely to their needs.

Some businesses even deliberately produce brands to appeal to all customers. They want to capture as much of the market as possible with an undifferentiated product. For example, in the UK tea brands such as PG Tips or Typhoo Tea are aimed at the mass market.

However, many businesses develop marketing strategies for particular segments of a market. A differentiated strategy would aim to target different market segments with different marketing strategies. A detergent manufacturer might sell cleaning products to consumers and to cleaning companies. But it could use different packaging for the two markets and offer cleaning companies much larger packs. It could also use different advertising and other promotion in the two market segments.

Another alternative is to focus on just one market segment. This concentrated marketing is used, for example, by luxury brands such as Dior or Gucci. Dior does not attempt to sell clothes to consumers in every segment of the clothing market. It concentrates on selling to consumers with high incomes by producing high quality, expensive clothing.

Segmentation, targeting and positioning

The stages through which a business might plan a differentiated or concentrated marketing strategy are shown in Figure 1.

Segmenting the market The business will try to identify how it might segment its markets.

Developing customer profiles The business will find out exactly who its customers are in each market segment. This might be done through market research. It might then draw up a CUSTOMER PROFILE (or CONSUMER PROFILE if the buyers are consumers). This is an analysis of the characteristics of customers in the market or market segment. It could include age, income, budgets, channels through which purchases are made and reasons why customers buy the product.

Evaluating market segments The business then needs to evaluate which market segments it is worthwhile targeting. A manufacturer of vacuum cleaners may find that 30 per cent of households have not bought a new cleaner in 15 years. But there might be little point in targeting these customers if three quarters of them are in the bottom 40 per cent of the income range. This might indicate that most would not have the income to buy a new vacuum cleaner. On the other hand, it might find out that young people aged 20-30 are three times as likely to buy a vacuum cleaner as old age pensioners. With higher average incomes too, young people might be worth targeting.

Selecting market segments to target Once a business has evaluated its market segments, it must then choose which will be its target market. The vacuum cleaner manufacturer might decide to target more affluent young people as the most promising way of increasing sales.

Positioning the product for the target segment Having chosen which market segments to target, the business must now make decisions about positioning its products within that market. In particular, it must consider the competition it faces and how it will differentiate its product from others.

Developing a marketing mix for each target segment Finally the business must develop a marketing mix. This would take into account the product, price, promotion and place suited to the market segment. By doing this, the business will have responded to the needs of the market and its customers, i.e. it
Market segmentation would be market orientated.

Identifying the target market can be more complicated. Sometimes the buyer might not be the main influence on the choice of product. An increasing example of this is the effect of PESTER POWER. This is where children constantly nag to persuade their parents to purchase products. They might be the latest brand of clothing that is worn by their friends at school, buying Sky television and its many channels or a fast food burger meal when shopping. It has been suggested by some researchers in the UK that pester power results in a purchase in around two-thirds of cases.

**KNOWLEDGE**

1. How can a market be segmented geographically?
2. Explain three ways in which the spending patterns of females aged 25-35 with children who are in paid employment might differ from those of males aged 35-65 who have taken early retirement and whose children have left home.
3. (a) What is meant by 'social class'?
   (b) Give two ways in which the spending of social class A households might differ from that of social class D.
4. How might understanding the personalities of different groups of consumers help in the marketing of a product?
5. Briefly explain five ways in which consumers might be segmented on a behavioural basis.
6. What is the difference between a differentiated marketing strategy and a concentrated marketing strategy?
7. How might a business plan concentrated marketing strategy?

**CASE STUDY: The power of the Muslim pound**

Marian Salzman is one of the world's foremost trend-spotters. She can see something coming before others have even raised their heads to look and the next big thing in marketing she argues is the 'Muslim pound'. According to Mintel, a market research company, the estimated spending power of Muslims in the UK is £20.5 billion. There are more than 5,000 Muslim millionaires in the UK, with combined assets worth more than £3.6 billion.

'It's a unique market with a unique set of needs, for example in the banking area,' says Salzman, the executive vice president and chief marketing officer of consultancy JWT. 'Under sharia law (which governs how Muslims can borrow money), different kinds of mortgages need to be written in order for someone who is Muslim to acquire a home. And there's halal law (which is concerned with the way in which animal are slaughtered) which affects consumption of food, beauty and healthcare products.'

This trend may provide demographic segmentation opportunities for business. There has been a huge surge in marketing to Muslims this year, according to Salzman. 'I think it is a recognition of the size of the market,' she says. 'Another thing I believe has been driving it is all the coverage of whether Turkey will be part of the EU, which has also raised the visibility of the question about the sheer percentage of the European population that is Muslim.' Muslims are also more sensitive about the moral attributes of brands and the way in which they are marketed according to research. Fifty-nine per cent agreed that there was too much suggestiveness or immodesty in most advertising compared to 28 per cent of the general sample.

Their buying behaviour is also heavily influenced by expert endorsement and opinion. In the survey, almost two-thirds agreed with the statement, 'I feel reassured if a product has been endorsed by an expert' - almost twice as many as the general sample. Muslims also have a higher level of trust in expert opinions and reviews than non-Muslims: 75 per cent compared to 56 per cent.

Source: adapted from The Independent, 9.7.2007.

(a) What is meant by (i) market segmentation (3 marks) and (ii) demographic segmentation in the article? (3 marks)
(b) Explain why a small business offering financial services might benefit from market segmentation. (6 marks)
(c) Examine how targeting Muslim customers might affect a business marketing financial services. (6 marks)
(d) Discuss the extent to which selling to one market segment, such as people of a particular religion, is likely to be a successful marketing strategy for a small business offering financial services. (10 marks)