**Market segmentation – Handout**

A market segment is any sub-group of a larger market. Mass market businesses divide their target markets into segments (sub-groups) that have common features, or are made up of individuals that make purchasing decisions based on common factors. When this is done businesses produce and market products aimed at each of these segments.

**Market segments**

**Demographic - Age, social class, gender, income.**

**Example: Banks oﬀer diﬀerent accounts to diﬀerent age groups.**

**Psychographic - Allows targeting of groups on personality and emotionally based behaviour – attitudes, opinions and lifestyles.**

Example: Diﬀerentiating cars by emphasising diﬀerent features – safety and capacity for the family car.

**Geographic - Regions of the country – rural, urban, suburban. Global marketing often requires diﬀerent products for diﬀerent countries.**

Example: Global brands such as McDonalds and Coca Cola require diﬀerent ingredients in diﬀerent countries.

**What rules must apply to market segmentation?**

Firstly, segments must be recognisable. They must be different enough from other segments to make producing for that segment worthwhile. For example, housing is built for different groups of people: flats for single people, two bedroom houses and starter homes for young couples, three or four bedroom houses for families, bungalows for retired people.

Also segments must have critical mass. This means that they must be big enough or produce enough sales value to make the production of products or services targeted at the segment worthwhile. The market for two-seater sports cars has grown rapidly in recent years making the segment attractive: not only to niche market businesses such as Lotus, but also to mass market businesses like Toyota, Honda and Nissan.

Segments have to be targetable. Having their own identity means that they can be promoted to, and have marketing directed towards them. On daytime TV, there are many adverts for retirement plans, or funeral expenses plans, often sold in a reassuring but concerned manner. They are targeted at a segment which is aware of the potential problems of costly funeral expenses, or leaving a loved one without financial support.

Once segments have been identified, then businesses can use a segment-orientated marketing approach. This approach offers a number of advantages for both businesses and customers. Targeted marketing allows the business to stress those product features that are most relevant for each particular segment (e.g. price vs. quality vs. brand identity). This targeting will occur even if the product being sold to different segments is almost identical.

**Market segmentation conclusion**

Finally, customers change their preferences and patterns of behaviour over time (the customer life cycle). Sustainable customer relationships in all phases of the customer life cycle can come from segmenting markets. Businesses that serve different segments along a customer’s life cycle can lead their customers from stage to stage by always offering them a special solution for their particular needs. For example, most car manufacturers offer a product range that caters for the needs of all phases of a customer life cycle: a first car for students/young workers, a fun car for young professionals, a family car for young families, SUV for growing families etc. Skincare cosmetics brands often offer a branded series of products for babies, teens, young adults, mums, and more mature skin.