

Chapter Three – How do we identify and understand markets?

As a student of marketing, you have already learned that the main purpose of modern marketing is to serve customers. If the organization really believes in this philosophy, that is, “the Customer Rules,” it only remains for the organization to focus on researching and understanding its customers and then delivering products and services to the customer that will not only meet the customer’s needs, but satisfy the customer in a way that will keep the customer coming back to our organization to do business with us. Therefore, often the first assignment for the marketing function is to gather and analyze information about customers. Today, that usually means first attempting to understand the structure of the marketplace.

Understanding the Marketplace and Different Customer Segments

The main goal of **market segmentation (dividing the market into different portions based on differences in customers)** is to better understand the needs of our customers thus we need a structured approach to attain this goal. A simple seven-step approach follows:

Step One: Identify the type of market with which you will be dealing

Step Two: Analyze the areas of satisfaction you are attempting to provide to this market, that is, what wants or needs do you intend to satisfy?

Step Three: Select dimensions with which to segment the market

Step Four: Based on the selected dimensions, identify the segments in the market under study

Step Five: Evaluate whether the segment in which you are interested meets the four criteria for effective segmentation

Step Six: Create a profile of the customer identified including purchasing behavior expectations

Step Seven: Combine the segmentation analysis with other analyses related to the product, market, and business strategy.

Step One: Identify the type of market with which you will be dealing

Types of Markets

Market segmentation is an approach by which we identify, define, and understand different sub-markets for products and services. For example, the

automobile market is comprised of many segments including passenger cars, vans, sports utility vehicles, pickup trucks, and many others. Notice, that if you choose one segment, for example, passenger cars, there are many segments within that segment (for example, Two-door sports sedans, four-door station wagons, convertibles, etc.). The first step to market segmentation is understanding and defining the market with which you are working. For example, if we examine the market for toothpaste, we might first look at the **type** of market we are looking at. Normally, in marketing, we can identify four types of markets.

1. consumer markets – people who buy for their own, personal non-business use (for example, you buy a lawnmower at Wal-Mart to mow your own yard).
2. organizational markets – organizations buy goods and services for use in the operation of their businesses or for resale. For example, Compaq computer buys many of its microprocessors from Intel Corporation and your local dentist must obtain supplies and materials to provide his/her services to patients.
3. government markets – Local, state, and federal governments taken together constitute for the largest demand for goods and services in the U.S. For example, your local police department must buy patrol cars.
4. institutional markets – these markets include universities, hospitals, and other similar organizations. For example, a hospital cafeteria must purchase food and other supplies to run its operation.

Note that each of these types of markets has demand for both goods (tangible products that we can touch, feel and see) and services (intangible products that we cannot touch, feel, and see). After identifying the type of market, we can then begin to identify segments within that market. For example, if we are analyzing the consumer market for toothpaste, we realize that there are many segments identified in that market already: health (that is, fluoride, tartar control, sensitive gums, and so forth), attractiveness (whitening, breath freshener, etc.), special needs (smokers' toothpaste, kids' toothpaste, etc.). Note that there are several different dimensions for segmenting markets. For example, the last category we mentioned 'special needs' includes both a lifestyle segment – smokers, and an age segment – children. We will address this issue later in the chapter.

Different types of markets often require a separate basis for market segmentation. For example, we frequently use age as a way to understand and segment consumer markets because age often accounts for significant differences in the wants and needs of consumers. For example, consider passenger cars. Many people in their early years choose cars on the basis of styling, economy, acceleration, and, of course, price. Seniors may choose their car based primarily on brand name and safety issues. Thus age is often an important criterion in what satisfies a particular consumer. However, age is rarely used to identify differences between organizations because usually, the

age of an organization does not usually significantly impact its particular demand for products and services. As in many cases in marketing, the exceptions to this statement only serve to prove the rule.

Step Two: Analyze the areas of satisfaction you are attempting to provide to this market, that is, what wants or needs do you intend to satisfy?

As we will discuss in following chapters, people and organizations usually purchase benefits: not products or product features. Therefore, market segmentation analysis requires a clear definition of the benefits customers are expecting to receive through purchase. For example, people buy vacuum cleaners to attain their personal goal of having a clean, sanitary carpet. The form of the product doesn't matter as much as the product's ability to provide those benefits. What would you do if you were marketing manager of a company that has vacuum cleaner bags as its sole product when more and more vacuums are 'bagless?' The implications for product design will be discussed in a later chapter.

When deciding on how to distribute a product, one organization may choose the internet based on its customers' desire for efficiency in buying and familiarity with the world-wide web, while another organization may choose to distribute its products through a traditional retail outlet because the segment chosen prefers to 'touch and feel' the product.

For an additional example, consider a small gift shop. If a market research study indicated that customers of the shop preferred a lot of assistance in the product choice process because over three-fourths of the products purchased in the store were purchased as gifts, the product would be distributed through a physical location within which the customer could compare alternatives. Thus, the primary benefits sought in this shop were finding a good gift idea with a sense of security against giving an inappropriate gift. Notice that the store's owner might change from an inventory similar to her competitors to a differentiated set of product choices aimed at meeting her customers' purchasing goals of quality and uniqueness.

Step Three: Select dimensions with which to segment the market

The dimensions used to segment the different types of markets will be organized according to type of market because the dimensions used for segmentation vary substantially.

Dimensions for Segmenting Consumer Markets

As discussed earlier, people in consumer markets buy for their own, personal non-business use, thus segmentation dimensions for this type of market focus on

the characteristics of the buyer. Four dimensions are traditionally used to segment consumer markets. These dimensions are:

- a. demographic dimensions - 'demo' means people, and 'graphics' means some representation of thereof. So, demographics consists of all those characteristics of people that are used to describe the size and composition of the population including age, gender, amount of income, level of education, and other such attributes.
- b. psychographic dimensions - 'psycho' from Greek means 'spirit or mind' so while demographics deals with the statistical characteristics of the market segment, psychographics refers to the characteristics of peoples' spirits and minds. For example, psychographics is usually broken down into personality, life style, and motivation.
- c. geographic dimensions – this dimension, not surprisingly, relates to where people live, for example, the demand for snow skis is higher in the mountainous states in the U.S. than it is in the plains states.
- d. behavioristic (or intended use) – this dimension relates to benefits sought and expected use by the customer. For example, many products are sold in multiple packages such as six-packs because customers expect to consume multiple units in relatively short periods of time.

Dimensions for Segmenting Organizational Markets

Customers in organizational markets buy products either to use in the operation of their business or to resell to other organizations. For example, Walmart must purchase cleaning products to keep Walmart Stores clean and attractive, but Walmart also buys cleaning products to sell to their customers. Given this situation, different segmentation strategies are required based on the intended use of products bought by organizational customers. Bases often used include:

- a. intended use of products bought
- b. expected benefits to be provided by products purchased
- c. size of organization
- d. SIC (or NAIC) code* of organization's or organization's products
- e. Other characteristics of organization or specific industry

*Standard Industrial Classification or North American Industry Classification System codes are numbers derived from the core business in which the organizations are engaged. These codes are useful for segmentation because all industrial activities are given a code in the U.S. This scheme has been widened to include Canada and Mexico subsequent to the NAFTA agreement. Check out the website at <http://www.census.gov/epcd/www/naics.html>.

Step Four: Based on the selected dimensions, identify the segments in the market under study

After dimensions have been selected to use in defining the segments, segments then must be identified in the market under study. For example, if we are trying to analyze the market for personal computers, we might choose to identify the following segments: desktop, laptop, PDA (personal digital assistant). Which of the four dimensions did we use to create those segments? Primarily, behavioristic (intended use), because portability and computing power are two important benefits sought by different pc users.

Step Five: Evaluate whether the segment in which you are interested meets the four criteria for effective segmentation

To be useful, an approach to segmenting markets, the segments must be:

1. measurable (we can estimate how many people or organizations are in the segment)
2. accessible (we can reach the segment through available means)
3. compatible (the segment is consistent with the overall goals of the organization)
4. substantial (the segment is large enough to justify our develop of products or services just for that segment)

These four dimensions are helpful for understanding any market structure. However, we must first understand the market, itself. For example, try using this information to analyze a market with which you are familiar. Identify the different segments in that market and list the four factors above, and the concerns for each factor as it relates to the product or service you picked. For example, segment the market for shampoo or soup, listing each criterion above followed by an explanation about how this characteristic will be present in the target market.

Step Six: Create a profile of the customer identified including predictions of expected purchasing behavior

As one might expect, there is a large body of literature related to buying behavior in marketing because marketing focuses on the buyer and his/her characteristics. While we will cover parts of this literature the reader should realize that there are hundreds of thousands, if not millions of pages published in this area.

Usually when we attempt to model the buying process of our target customer. Of course, this process differs considerably across different types of markets as well as across different types of customers.

Understanding the significance of the purchase for the target customer

Very often, marketers overestimate the importance of purchases to consumers. Naturally, if one researches, manufactures, and distributes a product to consumers, one is intimately involved with the product often virtually every working hour. This circumstance often results in a heavy emphasis on customer decision-making when in fact the customer may only react on a very shallow psychological plane to products offered and the purchase decision is in reality almost an afterthought. However, it is important for marketers to attempt to model the expected buyer behavior involved for their product. We will discuss this issue further in the following chapter.

Marketing Strategy

We will define 'marketing strategy' as "a marketing mix aimed at a specific target market." While this definition is a use of the 'lower level' of the term strategy, we believe that the definition is appropriate for beginning students in marketing. If we look closer at this definition we can see that a marketing strategy is:

A Marketing Mix	Product or service	AIMED AT a → Target Market
	Price	
	Distribution (Place)	
	Promotion	

We will use this definition throughout our study of marketing principles and you will soon become comfortable thinking in these terms.

Example of seven-step segmentation process 'Let's Get It Together' Family Organization Services

Step One: Identify the type of market with which you will be dealing

"The consumer market"

Step Two: Analyze the areas of satisfaction you are attempting to provide to this market, that is, what wants or needs do you intend to satisfy?

"We seek to enhance family life for parents and children alike by providing practical tools to improve organization in family life"

Step Three: Select dimensions with which to segment the market

*Demographic, Psychographic, Geographic, Behavioristic
(a note to the reader: segmentation doesn't always requires the use of all four of these factors in creating a profile, but we suggest you always use each dimension in your analysis, whether or not you decide to drop one later on in the process)*

Step Four: Based on the selected dimensions, identify the segments in the market under study

Demographic – household income over \$80,000, at least one parent is college educated, both parents work, two children or more in household suburban location in medium to large city

Geographic – every geographic region of the U.S. has families who fit our profile, also see Demographic, above

Psychographic – ‘busy or hectic’ lifestyle as described by people in segment

Behavioristic – family perceives life is ‘too hurried, too complicated, too little quality time together’

(Please note: Our marketing research studies indicated these facts and allowed us to formulate our customer profile)

Step Five: Evaluate whether the segment in which you are interested meets the four criteria for effective segmentation

Measurable – we were able to assess this segment and understand by using only the census data published by the U.S. Bureau of the Census (Website is <http://www.census.gov/>)

Accessible – we can easily identify and communicate with households in profile. However, selecting specific households that may want our service is much more difficult.

Compatible – our organizational mission is aimed at serving this segment, so, yes, the segment is compatible with our organization and other products/services

Substantive – our research and projections indicate that there are millions of households in our target market. Therefore, we are starting our service in one city and expanding the service over the coming years.

Step Six: Create a profile of the customer identified including purchasing behavior predictions

See Step Four above. Also, we know that purchase behavior is a high involvement transaction for our target families.

Step Seven: Combine the segmentation analysis with other analyses related to the product and market

While we believe our concept has a lot of promise, we must continue to flesh it out and do research. Organizational research will continue while we conceptualize and offer our first seminars to keep track of changes in the social environment of our chosen geographic markets. We will also maintain a research effort with all people contacted in relation to our

concept including families who participate, healthcare professionals, and community leaders.

Chapter Three Exercises

1. Summarize in a one-page report what you find after you get on the internet and search the keyword 'market segmentation.' Organize your answer according to the different categories you find in your search.
2. Go to your local grocery store or supermarket and visit a specific product section. Breakfast cereal, bread, and personal care products are three good areas, but there are many others. Pick a product category that is of interest to you. Observe the products offered and identify product categories that are based on different consumer segments, in your opinion. Prepare a one-page report on your findings.
3. Using the four dimensions of segmentation for consumer markets, describe a market segment with which you are familiar. In this exercise, list each of the four dimensions and describe the segment with those dimensions. For example, the market segment that Saturn Automobiles has worked towards pleasing is men and women with a college education, in the middle-income category. They lead a relatively frugal lifestyle and seek economy and quality in their purchases.
4. Check out the website of American Demographics Magazine at <http://www.americandemographics.com/>. Read an article and write a one-page summary of the article and its relevance to marketing.
5. If you have an industry of interest, explore the markets and types of customers served by that industry. (For example, the local utility company may be owned by government, so as a customer it will be considered a government market.)
6. Apply the seven-step process of market segmentation to a new product idea that you conceive listing your activities and comments in each step in the process.
7. Do an internet search on each of the four dimensions of market segmenting consumer markets (demographics, psychographics, geographics, and behavioristics) to compare your findings to the material in your Principles of Marketing e-book.
8. Apply the PIMC planning model (planning, implementation, monitoring, evaluation, correction) to a club to which you belong. Identify each step clearly.
9. Write a job description for a manager of the marketing function. How does it compare to the description you wrote in answer to question six in chapter one?

Chapter Three Glossary

market segmentation - dividing the market into different portions based on differences in customers

demographic dimensions – grouping potential customers on objective factors, for example, age/income/gender/ethnicity and level of education

psychographic dimensions – grouping potential customers on psychological factors including personality, life-style, and motivation for purchases

behavioristic (or intended use) dimension –used for market segmentation, this dimension relates to benefits sought and expected use by the customer

marketing strategy - a marketing mix designed for and aimed at a specific target market