

1.5 MARKET SEGMENTATION



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What is market segmentation?

Market segmentation involves dividing customers, or potential customers, within a market into different categories or segments. A market segment is a group of people with similar but differing needs and wants. Businesses seek to segment their markets to enable them to better tailor products to customer needs.

By recognising that customers are not all the same and gathering information about their differing needs, firms are better able to make decisions about what range of products they should offer consumers and how those products will be marketed.

To illustrate and explain the concept of segmentation have a look at the web site for children's publisher Orchard Books (www.orchardbooks.co.uk). Orchard Books is the company behind successful titles like Charlie and Lola, Clarice Bean and Billy Bonkers, which sell all over the world. Their web site shows that they segment the market for younger children's books into five different segments. Each segment has significantly different reading ability and interests.

Age 5+

"Easy to read short stories for readers taking their first tentative steps into a world of books, perfect for reading together."

Age 7+

"Newly independent readers will love these accessible books. Seat gripping fiction interspersed with illustrations to capture the imagination."

Age 9+

"Fun packed stories of adventure and intrigue for readers progressing to full length fiction."

Age 11+

"Captivating fiction for readers with increasing reading abilities."

ACTIVITY 10 : Children's books

TASKS

1. Why do Orchard Books segment their market by age? (2)
2. Suggest at least two other ways in which they might usefully divide up their customers to help them provide what those customers want. (3)



Methods of segmenting markets

There are many ways of segmenting markets. Some of these include:

Psychographic. This is segmentation by lifestyle, attitude and personality type. An example of psychographic segmentation can be seen in the extensive national survey carried out by Sport England, the organisation seeking to increase public participation in sports. The Sport England research developed nineteen sporting segments to help them understand the nation's attitudes to sport and motivation for doing it (or not). The segment most active in sport is segment 1, which was given the name of "Ben". Ben is described as a "work-hard, play-hard drink hard male", a recent graduate who eats too much fast food and enjoys the latest gadgets. He apparently represents 6.4% of adults and 13.3% of adult males.

Geographic. Segmentation of markets may take place by considering where the customers live. An understanding of geographic segmentation will be especially important for firms involved in export. The typical size of homes is an example of the need for geographic segmentation. In places like Singapore and Hong Kong, pressure on land means that houses and flats are usually very small. As a result, domestic appliances such as fridges and freezers have to be smaller than those typically required in other countries. In some countries, bumpy road surfaces mean that cars need to have different suspension to that of cars sold in Europe.

Demographic. Demography involves the study of population trends. So demographic segmentation involves factors such as sex, age, income and race. Businesses often segment their markets on the basis of socio economic groups. This is a blend of income, employment type and status within society. The Institute of Practitioners in Advertising (IPA) method of categorising people by socio economic group is shown in the table below. Demographic segmentation can also involve looking at customers in terms of their family circumstances. Young childless couples, families with school age children and late middle aged couples whose children have left home will all consume different products to some extent.

Behaviourally. Some marketing managers will focus on segmenting the market on the basis of consumer behaviour. This might involve looking at whether the consumer is a light or heavy user of a product, and when they consume the product. For instance, dried fruit is sold to at least two market segments. It is put in 500g bags for shoppers who are using the product in baking. For those who buy the product as a snack in their lunch box it is sold in cartons containing a number of much smaller boxes.

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SOCIO ECONOMIC CLASSIFICATION (IPA)		
GRADE	SOCIAL STATUS	EXAMPLES OF OCCUPATION
A	Upper middle class	Senior managers, doctors, lawyers
B	Middle class	Teachers, nurses, middle managers
C1	Lower middle class	Clerical jobs, junior management, police constables
C2	Skilled working class	Carpenters, plumbers
D	Working class	Semi skilled and unskilled workers such as factory operatives
E	Poor	Casual staff, unemployed, state pensioners

The benefits of segmenting your market

Products are matched more exactly to customer needs

It is usually optimistic to assume that a product will meet the needs of all market segments. By identifying different kinds of customer and tailoring a product range with that in mind, a business is meeting demand more exactly. If businesses are good at identifying market segments and gathering information about them to develop new products they are likely to increase their overall market share.

Small businesses are well placed to profit from providing a product that meets the needs of a small market segment. This is known as niche marketing. Larger suppliers may feel that these small segments are not worthwhile. A small business may not be able to compete on price with large producers in segments that contain large numbers of consumers. Selling through the web is one way for a small business to effectively target a niche market, because the cost of selling to the consumer is much more affordable than other means of reaching the target audience, such as a chain of retail shops.

The business can target its promotional activities

A company that knows who its different customers are, and how they differ, can seek to promote products in ways that are most likely to reach those customers. For instance, the use of product placement in films is often based on a good understanding of segmentation. Companies contribute

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to the cost of films they believe will be watched by the demographic groups that could become their customers. According to the marketing web site brandchannel.com, the romantic comedy **Proposal**, starring Sandra Bullock, contained more than 30 “brand cameos”. Apple was the leader of the pack, with an iMac featured in every single scene requiring a computer.

Newspapers and magazines have a well defined reader profile. For instance, it is not difficult to see that advertising tractors in a trade journal such as **Farmers Weekly** makes a lot more sense than paying for advertising in a newspaper such as **The Mirror**. The readers of **The Mirror** are overwhelmingly C2 to E. (See the table below). Very few of these readers are likely to purchase a tractor. Once a firm can identify who buys what, it can target advertising and other promotional spending more effectively.



Diagram: Understanding your customer

Drawbacks of market segmentation

It may be difficult to identify and reach market segments

It may be hard for a business to categorise its customers. This is often true for smaller businesses. The managers of the business do not have the resources to easily analyse what different types of customers it has.

Take the example of a business such as a hairdresser or a small retail shop. Their customers are cash buyers about whom the business usually knows little or nothing. It would be fairly expensive and time consuming for such a business to even establish where its customers live, let alone segment them in other ways.

Even some large businesses may struggle to identify distinct market segments. Manufacturers of household cleaners, which are purchased by pretty well everybody, may find it difficult to identify market segments.

Some customers may be ignored

There is sometimes a danger with identifying important market segments for your business and concentrating on marketing the product to just those segments. You may lose sales from other potential customers. The wants and needs of people change over time. Research into customers has to be an on-going process.

Self Check Questions

1. What is market segmentation?
2. Briefly explain what is meant by psychographic segmentation.
3. Briefly explain what is meant by demographic segmentation.
4. Give two benefits of segmenting markets.
5. Give two possible drawbacks of market segmentation.

ACTIVITY 11 : The online butcher

The majority of the meat bought in the UK as a whole comes from large scale, intensive farms and is sold through one of the supermarket chains. In a week when the biggest joint of beef in Tesco was priced around £20, the online butcher Donald Russell was offering a premium priced “Ribeye Roll” joint of beef for £79. Based in Aberdeenshire, Scotland, the business is an online butcher specialising in grass-fed, traditionally matured beef and lamb.

The company only buy from Scottish farmers with high animal welfare standards. Unlike most modern meat suppliers, Donald Russell allow their beef and lamb carcasses to hang (mature) for 21 days. This adds to the unit cost, but their discerning customers understand that this gives the meat extra flavour and tenderness.

The founders of the business, back in 1974, were Scottish farmer William Donald and master butcher John Stone. They originally supplied meat to the trade only. In the early years their customers were some of the top restaurants and hotels in places as far apart as London, Monte Carlo and Singapore. Nowadays their online business delivers not only to the trade, but also to private houses across the UK. And although they built their reputation through beef and lamb, they now sell pork, venison, poultry, game and seafood as well as a range of gourmet specialities hand cooked by chefs.

Source: adapted from www.donaldrussell.com

TASKS

1. Suggest why Donald Russell sell online rather than through a shop or shops. (2)
2. How vulnerable are Donald Russell to the effects of a UK based recession? (3)
3. Do Donald Russell seem to segment geographically, demographically or psychographically? Or is it a combination of these? Explain your answer. (4)
4. Explain what is meant by the term niche marketing. Discuss whether or not Donald Russell are involved in niche marketing. (4)