Have We Met?

Market Identification

Find your mark(et)

Pick your clique

Pool your resources

So What?

Have you ever noticed that people who seem different from each other can share certain things in common?

Take your classmates, for example. Who likes pumpkin pie? Who has a younger brother? Who has braces? Whatever the category, your class-mates can be grouped in different ways—by their similarities.

You might be glad to know you have things in common with some of your classmates. But marketers are even *more* excited about it than you—because grouping is how marketers discover the best ways to match producers with their customers. It's how marketers figure out what it takes to meet their customers' needs.

How do you think marketers are grouping **YOU**?

What's Your Problem?

Anyone can buy a product, right? Well, not really. The people who can buy a product are those who *want* to, who *also* have the resources, *and* who are willing to make it a reality. For marketers, knowing which people fit these requirements is key. In any business, *a customer or potential customer who has an unfulfilled desire and is financially able and willing to satisfy that desire* is a **market**.

Let's look at a market more closely...

Market

Anytime you have an unfulfilled desire (you need a good or service), there's a marketer some-where who wants to meet your need. If you need a new lawnmower, you have a "problem," which the marketer "solves" by providing a lawnmower for you to buy.

But having a problem isn't enough. If you can't *pay* for a new lawnmower, the marketer can't consider you part of the lawnmower-buying market. You see, to a marketer, knowing which customers have the money—the financial ability or the resources—to get the problem solved is just as important as knowing who has an unfulfilled desire.

One more thing. If you need a new lawnmower and have the money to buy one—do you? Not unless you're willing to spend your money on a particular lawnmower right now. This means that marketers have to look carefully at which customers have the desire, the capability, *and* the willingness to have their needs met—soon. Customers who match all of these requirements form a market.

Objectives:

A **Explain the importance of market identification.**

B **Discuss ways that a market can be segmented.**

Now, let's look at how a market can be divided into smaller parts...

Target Market

Say you're part of the lawnmower-buying market—because you fulfill all of the requirements. But which type of lawnmower do you need? If your yard measures five acres and your spare time is limited, you're in the market for a riding mower. But, if your lawn is a neat little rectangle that can be mowed in 10 minutes, you'll need something smaller. As you might expect, lawnmower producers are interested in knowing the *specific* machine that will make you happy. But, since it's not practical to make a lawnmower for each person, lawnmower producers split their customers into categories according to what they have in common—in order to make products that will meet the needs of the smaller groups they've identified. Take a look at what lawnmower buyers might be in the market for:

- Push mower
- Riding mower
- Mulching mower
- Bagging mower

And the list goes on!

Fortunately, some of these groups can be combined—providing greater accuracy in satisfying customers' needs. Let's say you need a riding mower that mulches and bags your grass clippings. The customers who have needs similar to yours are in the same *specific* market you're in—a **target market**. When marketers pinpoint *the particular group of customers the business seeks to attract*, they've grouped their customers by their similarities in order to meet customer needs effectively.

In short, marketers look at the entire market, identify the categories they see, and select the category (or categories) to fit what they intend to accomplish. This *identification and selection of markets for a business or for a product* is called **target marketing**.

Significance of Target Marketing

Since every customer belongs to a number of markets, targeting is necessary for accurate marketing. Just as customers are targeted in the consumer market, businesses are targeted in the industrial market. And, because marketers target both customers and businesses for many reasons, it's possible for the same person or business to be included in *more than one* target market.

As markets change over time—and target markets, too—marketers periodically update their target-market categories.

Target-Market Activities

Determining target markets for customers and businesses takes preparation—called target-market activities. To carry out these activities, some marketers suggest what works well for them and what doesn't. Other marketers look at each marketing situation and apply a method to fit. Whatever the point of view, making the decision usually comes down to weighing the advantages and disadvantages of the methods at hand.

Let's look at two styles of approaching target-market activities...

Objective A

Mass marketing. Imagine you're planting a vegetable garden with seeds you've purchased. If you open all the seed packets and scatter the seeds everywhere you want your vegetables to grow, you're making sure you have as many opportunities to grow vegetables as possible. Like scattering seeds, **mass marketing** is *designing products and directing marketing activities to appeal to the whole market*.

Advantages. When a product is first introduced, when it has only a few features, or when it appeals to a wide market—mass marketing is used to communicate a broad message to as many customers as possible. In fact, when mass marketing addresses its audience (everyone), it's addressing the largest audience available. And, producing one product for all is cost-effective because businesses:

- Don't have to pay for the production of similar products
- Can price and distribute *one* type of product more easily than many
- Can send one promotional message to everyone

What makes mass marketing work is that it provides the most possibilities for success—without breaking the bank.

Disadvantages. What causes a problem, however, is the diversity of the audience—everyone. Since customers are different from one another, marketers know that only a small percentage of the mass market is *likely* to purchase the product. You can think of it as the number of seeds that will probably grow into vegetable plants. If you've scattered them widely without much care, what kind of return do you expect to receive for your random efforts?

Segment marketing. In contrast, when marketers divide the market into smaller groups to target each group individually, they are practicing the segment-marketing approach. **Market segmentation** uses *the division of a total market into smaller, more specific groups* as a way to meet the needs of customers—by specifically addressing their questions and concerns. If you think of a **market segment** *(one of the groups into which the total market is divided)* as a packet of seeds, you can imagine planting, or marketing, in a direct, organized, and careful manner.

Advantages. Segment marketing works because finding out what customers need—and meeting that need—is at the heart of the marketing concept. And, when it comes to determining customers' needs, segment marketing is more precise than mass marketing. Because of the small size of each segment, this type of marketing allows for a finely tuned product, an appropriate price, and ease of distribution. And, with its specific message, segment marketing encourages effective communication. Wholesalers and retailers can benefit, too. By specializing in products made for one segment, they can function as high-end stores. Overall, this method provides an efficient way for smaller firms to compete with larger businesses—on the same turf.

Disadvantages. The downside to segment marketing is that it takes more resources to pull it off successfully. Since the product is usually more complex, it can be more difficult to produce—requiring more creativity during design and more money during production.

Why use of segments is increasing. Even though it can be more difficult or costly, the use of segment marketing is increasing because it is more efficient in the long run. Why? Today's customers are more discerning with product purchases. An educated group, they are not influenced by mass marketing alone. They want to know how the good or service will benefit them directly. With improved marketing research, marketers can pursue the answer to that question through segment marketing—and communicate their specific message using modern technology.

Summary

A market includes the people who can buy a product—those who have the desire, the resources, and the willingness to make it a reality. And marketers use target marketing to subdivide a market by identifying the categories they see and selecting the category (or categories) they want to target. To do this, marketers perform target-market activities, such as mass marketing or segment marketing. Because of its efficiency, the use of segment marketing is increasing.

1. Who can buy a product? Why?
2. Explain the difference between a market and a target market.
3. Describe the significance of target markets to business.
4. What are target-market activities?
5. Describe the advantages and disadvantages of mass marketing.
6. Describe the advantages and disadvantages of segment marketing.
7. Why is the use of segments increasing?

The Gray Zone

Sometimes, when businesses identify (and target) their markets, their methods raise eyebrows. Take credit-card companies, for example...

Credit-card companies that target college students are taking a chance on whether or not the students will be able to repay—since many students don't yet have a full-time job. It's a risk some credit-card companies are willing to take because students typically use a portion of the credit they're extended—increasing the credit-card companies' profits through fees and interest.

But, when credit-card companies offer *colleges* money in return for helping them distribute credit-card applications to students, colleges are positioned to benefit from the risky situation, too. But should they?

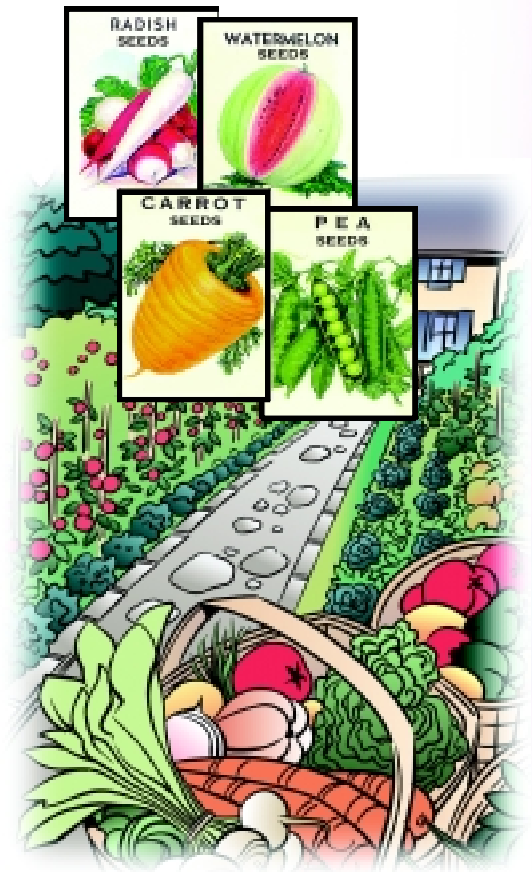
Look at some general facts about college students:

1. Many haven't yet established good credit histories.
2. Many haven't yet developed credit-managing skills.
3. Most already have school loans to repay.
4. Some drop out of school to pay their credit-card bills.

Since it's a risky situation for everyone involved—especially for the students—should colleges encourage students to sign up for credit cards? And, should credit-card companies use this method to target college students?

How You Slice It

Objective 3



How do marketers divide their markets? First, they identify their customers' similarities, and then they group their customers by what they have in common. You can think of it as if you're preparing to plant a vegetable garden. First, you examine the types of seeds you see at the store, and then you group the seeds into categories—according to what you want to achieve.

Let's look at some common ways to group customers...

Demographic Segmentation

When you look at seeds or plants to purchase, you might begin by sorting the seeds or plants by their characteristics. You might ask questions like:

- Is the seed young or old?
- Has the seed sprouted already?
- Is the plant a male or female plant?
- Has the plant ever been relocated?

The answers to these questions will provide you with general information regarding the seeds or plants. But do the answers help you achieve the vegetable garden you've planned? Not necessarily. You probably need to do a little more investigation.

In the same way, many marketers *begin* their sorting process by noticing some basic customer attributes—like gender or heritage. *Dividing a market on the basis of its physical and social characteristics* is called **demographic segmentation**, which provides a profile of potential customers. On its own, this method does not provide enough information for marketers to make informed decisions about how to *market* products to each segment. But, as a starting point, demographic segmentation helps marketers discover some valuable information.

Objective 3


Demographic segmentation: Gender

Let's look at some demographic characteristics...

Gender. Though marketers know that groups are never completely identical, they know that one quick way to classify their customers is by gender—because gender can indicate purchase preferences. For products created specifically for men or women, dividing customers by gender is especially helpful. And, since society's view of gender can affect marketers' decisions about gender classification, marketers take note of any changes in gender role or description—and respond accordingly.

Origin or heritage. Marketers also group customers by background. Race, ethnicity, nationality—any of the elements of a customer's origin or heritage might indicate purchase preferences. These preferences include products affected by social or cultural issues or even immigration. While origin does not change, people may migrate to another area and adopt some new preferences or influence their new society.

Religion. Whether or not you're part of an organized religious group, your personal beliefs affect your actions—and what you choose to buy. Preferences affected by personal beliefs include entertainment options, fashion alternatives, and food selections. For example, a vegan may not eat meat if s/he believes it is wrong to eat animals. So, marketers take note of the preferences that correspond to personal beliefs—and then provide products in keeping with what their targeted customers want.

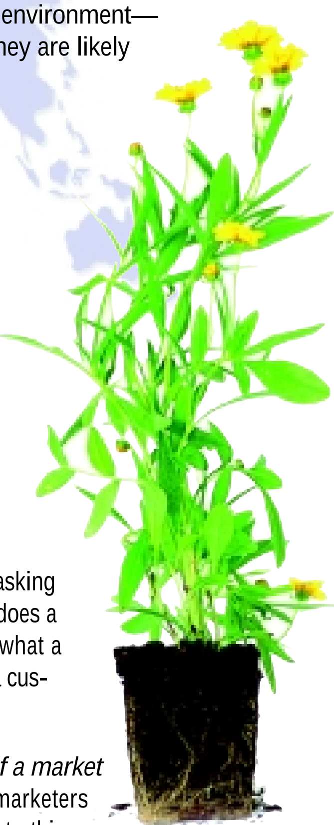
Social or economic status. Marketers also group customers by education level, occupation, and income. When they do this, they use a customer's social or economic status to determine what that customer is likely to buy. Doctors probably purchase more vacation packages than over-the-road truck drivers, for instance. And farmers usually need larger machinery than landscapers. Knowing a customer's social or economic status gives marketers insight into that customer's purchase preferences and financial capability.

Life stage. Another important way to group customers is by their current stage in life. Age, generation, marital status, family life cycle, family size—whatever the determining factor, marketers want to know where customers fit in the day-to-day buying routine. Are customers buying baby shoes, walkers, or running equipment? Do they need retirement-planning assistance, car-pooling opportunities, or diaper-cleaning services? When marketers categorize customers by where they are in life, they can quickly find out their needs—and what to do to meet them.

Overall, demographic segmentation delivers an outline of customer characteristics, which provides a basis for further investigation into customer needs and wants.

Geographic Segmentation

If you want to pick plants that will suit your garden environment—you need to sort your seeds (or plants) by where they are likely to flourish.



1. You need to ask *general* questions to reveal the plant's overall location requirement. Does the plant grow best in sunlight or shade?

2. Next, you need to ask *specific* questions to alert you to the plant's specific limitations. Does the plant require full or partial sunlight?

3. Finally, you need to ask even *more precise* questions to pinpoint the specific location or environment in which your plant should thrive. How many hours of sunlight should the plant receive per day?

Similarly, marketers determine customers' needs by asking about their global, regional, and local conditions. What does a customer in Finland need? How does that differ from what a customer in Hawaii needs? And what will it take to reach a customer in South Africa?

Using **geographic segmentation** *(the division of a market on the basis of where consumers are located)*, marketers determine customers' purchase preferences according to things such as the type of climate they're used to, the political boundaries they recognize, or the population density they encounter. Whether it's by continents, nations, regions, states, counties, ZIP codes, or neighborhoods—marketers use geographic segmentation to group customers by where they live in order to meet their needs.

In the process, marketers discover specifically:

- Where their markets are located
- Who their competitors are
- Which media will reach their customers

And, because customers can change their geographic location with little advanced notice—by moving to another house, city, or country—marketers keep an eye out for relocations, too.

Behavioral Segmentation

Maybe you want to select your plants by how they typically respond. This means that, as you think about the cause-and-effect nature of planting and growing vegetables, you ask questions to help you achieve your goal:

- If I give the plant more space, will the plant expand more quickly?
- If I apply special fertilizer, will the plant's growth rate increase?
- If I let the plant "go to seed," will it grow back next year?

Of course, if you don't know the answers, you do some research. You look at what others have done in the past—successfully. In the process, you form a perception of what might happen if you apply certain principles to *your* planting process.

Marketers know that when people flock to a store to pick up the latest gadget, there's a *reason.* And, as you might expect, they want to know *what* that reason is and *how* to use it to meet customers' needs. To find out, marketers use **behavioral segmentation** to *divide a market on the basis of consumers' response to a product.* Will customers feel that a special occasion warrants buying a high-quality product? Or will they sense that a product is worth buying because it bears a brand name?

With this method, marketers look into the cause-and-effect nature of customers' purchase decisions. They examine what customers *respond to* when they buy a particular product. And, in doing so, they notice that customers typically process one or more of the following questions:

- How will the product benefit me?
- Am I ready to buy it?
- When will I use the product?
  - On what occasions?
  - How often?
- Am I in a comfortable buying pattern?
- Do I feel loyal to a particular brand?

What makes behavioral segmentation useful is that it lines up with the marketing concept, which uses the customer's point of view to make marketing decisions. With this method, marketers can find out how customers respond and use that information to group them effectively.

Objective 8

Psychographic Segmentation

So, imagine your seed or plant is in the ground. It has the right amount of sunlight, moisture, and nutrition. But it would grow really well if it had something it really preferred. What is it? The *best* it can have.

If you gave your plant the most expensive plant food, removed any chance of disease, repelled all the bugs, kept it toasty-warm during a frost, and played enchanting music for it—then your plant would have life's *best.* And it would flourish, right?

Customers are no different. They want whatever it is they feel will give them the *best* in life. But customers stand on their own principles, view life from their own perspectives, play at their own hobbies, and repeat their own routines. Each customer is different—and each has different preferences. So, how do marketers pick the *best* things?

As you might expect, marketers group customers by their similarities—according to their values, motives, attitudes, opinions, interests, activities, personalities, and lifestyles. Marketers try to find out what's driving their customers to make the choices they do. To help them answer this riddle, marketers use **psychographic segmentation**, *the division of a market on the basis of consumers' lifestyles and personalities.* Is the customer motivated by greed? Or does the customer just like to stockpile products for a rainy day?

Like plants, customers want what they feel will give them the *best* in life. Since each customer is different, it is up to marketers to find out just what drives customers to make the choices they do.

Psychographic segmentation is popular with marketers because it fleshes out the demographic profile. It gives a clearer picture of customers' needs and wants based on personality and lifestyle. To use this method effectively, marketers could define their own objectives first—and then examine customers' buying motives.

Summary

As we've seen, marketers use customers' similarities to group them into categories useful for predicting purchase behavior. Common grouping methods include demographic segmentation, geographic segmentation, behavioral segmentation, and psychographic segmentation. Whether by general characteristics, residential location, typical responses, or lifestyle preferences—marketers learn more about their customers' needs through market segmentation.

TOTAL RECALL

1. How do marketers divide their markets?
2. In demographic segmentation, what characteristics do marketers consider?
3. Why is geographic segmentation helpful?
4. How is cause-and-effect examined in behavioral segmentation?
5. With psychographic segmentation, how do marketers select the *best* for their customers?

Make It Pay!

If marketers were grouping you, what categories do you think they would use? Where would *you* fit in the demographic, geographic, behavioral, and psychographic segments? Are you a middle-income, East-coast, brand-loyal trendsetter? Or, perhaps, a high-income, Southern, occasion-buying collector?

Take a few minutes to examine *your* unique characteristics. How are you similar to your family members and friends? In what ways are you different? How do you think your similarities and differences affect your purchase decisions?

Now, ask yourself what you think marketers would do to target you—if they knew what *you* know!

MarkED

1375 King Avenue, P.O. Box 12279, Columbus, Ohio 43212-0279 Ph: (614) 486-6708 Fax: (614) 486-1819