Lecture 09 : Market Segments - Technology Focus

Hello, welcome to our continuing session on market segmentation and targeting in the B2B or business marketing or technical marketing domain.

Market segment: A subset of a total market comprising a grouping of customers with similar needs, seeking similar sets of benefits and values, with similar levels of priority.

Market segmentation: The process of grouping together actual and potential customers in a market for the purpose of forming segments.

Targeting: The process of deciding which segments receive most effort, and which segments receive little or no effort. Since firms typically have insufficient resources and/or capabilities to address all segments, they must make choices.

Just to recap what we were discussing, market segment is a subset of the total market comprising of a group of customers with similar needs or what we call homogeneous needs and characteristics seeking similar sets of benefits and values with similar levels of priority. So, this is how we kind of summarize what a market segment is. Market segmentation is the process of grouping together actual and potential customers in a market for the purpose of forming segments. That is the process of creating the market segment is what we call segmentation.

And targeting is the process of deciding which segments receive most effort and which segments receive little or no effort or effort at a later stage. Since firms typically have insufficient resources and or capabilities to address all segments at the same time there will have to be some choices made and that choice pattern is what we call targeting or the

choice sequence is what we call targeting, So, first in this particular session, we will look at some models or some quantitative approaches of STP.

Market Segment Matrix

So, for example, this is one way of creating some segments and priorities. So on the left hand side on the vertical you have this customer needs so these are the each one of them the z or the y or the x or the w or the v,v these are all different customer needs or required benefits.

And then based on this we can create different segments. For example, we were discussing in the previous session the example or case study of OxoGrip. So they have this particular lot of innovation in the design of the grip or the handle for cutleries and kitchen tools and devices. So the easy-to-grip handle or stable to grip handle is suppose a particular property and or customer need. Based on that, we can look at different segments like the senior citizen market or the children cutlery market or the difficult vessels or devices market for domestic use and according to that we can then create these the horizontal axis which you see as their ABC and then we can create some kind of priority. For example here we are saying that priority will be the One, two.

So, based on this grip issue and a senior citizen could be the market first priority, priority number one. And the children market where we actually are looking non-toxic and also cutlery, which are very safe for children to use, could be another segment where we

combine the grip as well as the safe cutlery design and that creates another priority. So we can order these different segments that emerge from this kind of structuring and we can call, prioritize them as 1, 2, 3, 4, 5 and so on.

And this will give us some kind of order of target setting as well as in terms of segmentation clusters.

Candidate Descriptor Variables

Variable Type	Examples of Descriptor Variables
Geographic	Country, region, county size, city or Standard Metropolitan Statistical Area (SMSA) size, population density, climate
Demographic	B2C — age, education, family life-cycle stage, family size, gender, income, language, national origin, occupation, race, religion, social class, wealth B2B — balance sheet items, firm size, growth, industry, profitability, legal entity, length of time at location, number of years in business
Behavioral	Composition/type of purchase decision, decision-making practice, decision-making unit, new or existing user, use occasion, user situation B2B variables: procurement organization — centralized/decentralized, and power structure — like engineering dominated, financial dominated
Socio-psychological	B2C — attitudes; life stage; personality (ambitiousness, authoritarianism, autonomy, compulsiveness, conservatism, gregariousness, leadership); sexual orientation B2B — inward/outward orientation and organizational climate and culture

So, some of the variables are, as we say, descriptor variables that we can use. One could be geographic. This is a variable type that can be used for both B2B as well as B2C. So country, region, by country size, a city or state.

So, these are different based on population, population density, climate and so on. So geographic variables, one kind of variable. Then we have demographic variables. In B2C, demographic variables are age, education, family size, gender, income, etc. Whereas in case of B2B, demographic will be balance sheet type and size, the size of the company, the growth prospect, the industry, the profitability, the length of time at a particular location, number of years in business.

These are different demographic descriptor variables for B2B as opposed to the usual age, education, gender, family size, etc., income in case of B2C. Then there could be behavioral descriptor variables. In case of B2B, these are the procurement structure of

organizations. This could be centralized versus decentralized procurement structure or the different kinds of power structures of the decision-making unit, like it could be engineering-dominated or finance-dominated and so on. And then we have socio-psychological. This is not a very widely used descriptor variable in case of B2B, though in case of B2C, the attitude, life stage, personality characteristics, these are very intensely used descriptor variables here.

But in case of this B2B, the inward-outward orientation or organizational climate and culture, these are used for fine segmentation and targeting. But usually, the most important way of this kind of descriptor variables used in B2B will be the demographic and the purchase behavior, buying behavior orientation.

Developing Market Segments: *A Process View*
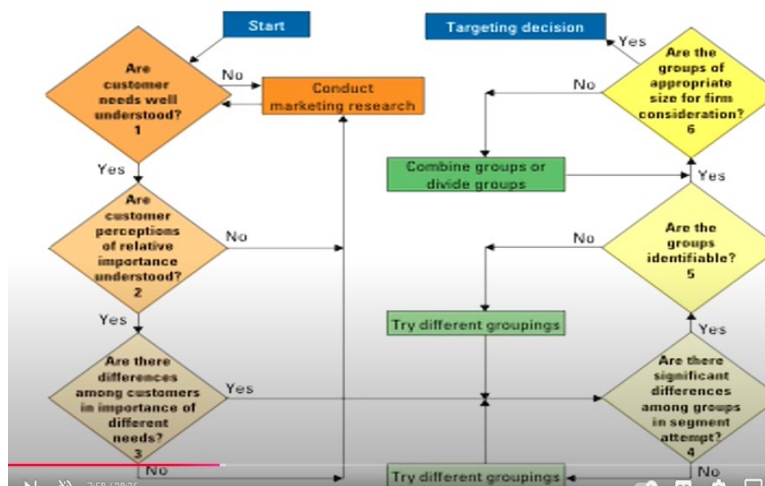
And then we can look at this particular chart, which is a kind of a flow chart where we can start with that our customer. So this developing a market segment, if we want to do a take a process view using the flow chart method, then an example is in front of you.

So we start with our customers needs well understood. If it is no, the answer is no. Then we again go back to the market research and market investigation. If the understood the customer needs are well understood, if the answer is yes, then we go forward to the next stage that our customer perceptions of relative importance well understood. Again, if it is no, then you go back to the market research stage.

If it is yes, then you go forward. So this is how it kind of goes. You can easily understand the different stages. Like, are these significant differences among groups in segments understood. If the answer is yes, then you go forward to the next stage.

If the answer is no, then you go back to create different groupings. So, the left-hand side, these three blocks are kind of important with respect to segmentation and the right hand side these blocks are flow chart is important for targeting decision. So, targeting decision as you can see mainly depends on creating groups of segments to be addressed and their sequencing. So, this is a more relatively important way of judging where we look at how well we understand the customer's needs. If it is not well understood in detailed analysis, then we go back to the market research.

If it is found to be good, crisp understanding is there, then we go forward to the next stage. This is in these determination that are we do we understand it well or not? The segment characteristics customer needs.

Questions about Market Segments

- How many market segments are enough?

- Do market segments evolve?

- How do customer life cycles affect market segments?

- Can we develop segments based on just our current customers?

We can use some questions. Of course, there are some prior questions before we start the flow chart method.

Those prior questions are that how many market segments are enough for us to look at? That will depend on the marketing company's size and availability of resources and the

current marketing infrastructure, current sales network and so on. And there are some interesting other questions here. These are – this is prior to the flow chart analysis that we start. This is like, for example, are the market segments evolving?

Are they overlapping over time? Are they very well delineated? And so, and also, we will look at that how a customer life cycle or product life cycle will affect the segments. Again, whether that some segments will merge or some segments will remain intact and so on. Also, a very interesting question here, the last question if you look at, that can we develop segments based on our current customers only or should we have based on segmentation some today's targeting as well as some planned targeting for the future where we look at today's customers versus some emerging customer segments. So this is an interesting question to pose so that we don't lose sight of the future with our preoccupation of the available current segments.

Market segment attractiveness versus business strengths
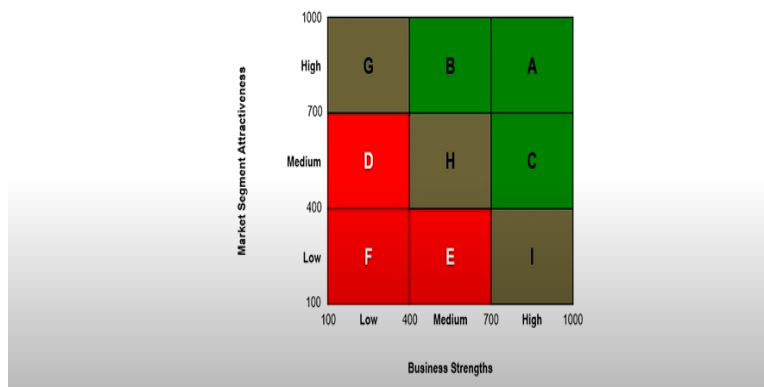
In the analysis of how well we understand the segments that we have identified, also a process of good segment identification will be this chart which is now in front of you. Here as you see on the x-axis or on the horizontal axis we have business strength going from low to high and on the y-axis or vertical axis we have market segment attractiveness. If you remember that from the previous session, that attractiveness will depend on the current size, the rate of growth, and not only the current industry status, but the future possible industry status, the emerging technological changes, etc.

Those are various judgments that we use to understand a market segment attractiveness. So if we put the market segment attractiveness from on a low to high scale and business strength attractive business strength from low to high on the horizontal axis, then this low low segment basically all this red color segments that you see on your screen are low priority as segments. Whereas this green color where we have high or medium high business strength and medium high segment attractiveness, obviously these green A, B, C are priorities. And DEF are lesser priorities unless we see potential of moving this segment, for example, the business where we have medium business strength. But if we have the ability to move it upwards where we can put it like a medium business strength match to medium business attractiveness, segment attractiveness.

Then we will treat this red ones as a next level of priority. But normally, we will start with a priority for the green segments and then next level will be this brown segments because the brown segments are more amenable to moving towards the right for example here like this brown segment where this is where we will perhaps look at the future effort or future oriented effort where we have a high attractive market segment, but our current business strength may be low. So then we will try to move it to the right where we go from medium to high in terms of capability development, business strength development. So GE today is brown, will become, will merge with these greens on a later stage.

So, this is another way of prioritizing the current market segment and targeting efforts and the next stage of segment attractiveness and targeting effort and those segments where we will perhaps not allocate much of our resources.

## Assessing Market Segment Attractiveness: *Illustration*

The firm should identify useful factors for evaluating segments, then ask the question "Given our history, objectives, culture, management style, successes, and failures, we like to be in market segments that offer…"

Factor	Firm Weighting	Market Segment Rating (1 to 10 scale)	Factor Score (weighting x rating)
Ability to build new strengths	10	6	60
Easy customer access	15	9	135
High market growth	20	7	140
Large potential size	20	5	100
Little regulation	10	8	80
Opportunity to use excess resources	10	2	20
Weak competition	15	4	60
Total	100		**595**

This is another interesting and easy to use but very powerful, this multi-criteria decision making with respect to market segment attractiveness. So, here as you see, we have identified factors for segment attractiveness. So, we have factors like easy customer access or high market growth or large potential size or regulatory ease or opportunity where our current excess resources can be used gainfully or competitive weakness in general. And based on this kind of competitive weakness or opportunity to use our extra resources or excess resources, we can also therefore develop another characteristic, that ability to build new strengths.

Based on this, these different factors with respect to the organizations, the marketing organization firms, current status or evolving status, we can say that given our history, objectives, culture, management style, previous successes and failures, we like to be in market segments that offer these factors and then we can prioritize them by giving some weights. As you can see here that high weights have been given to high market growth and large potential size. Whereas relatively low weights have been given to regulatory ease or opportunity to use excess resources. The next in between we have factors like easy customer access and competitive weakness. Now, therefore, this is actually a quantitative way.

Market segment attractiveness versus business strengths
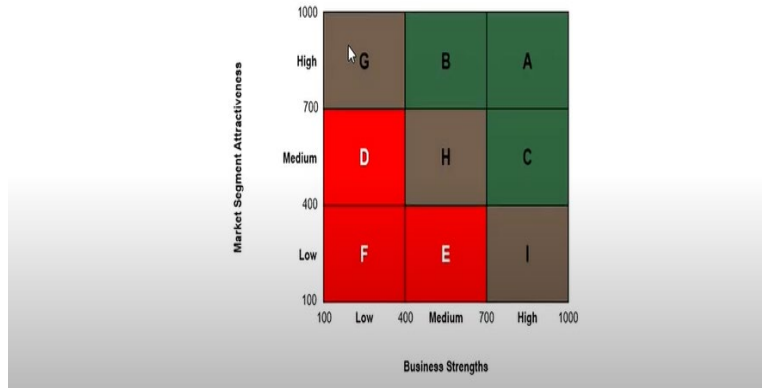
If you compare this with the previous diagram, then actually which segments will be in the red or which segments will be in the green, another way of determining that is with respect to this factor and weight combined with market segment rating. So, a green will have a segment rating of 9, for example. So, we have a market segment which is identified with a rating of 9. That means in terms of customer access as well as for various other factors that represents, that segment represents high priority for resource allocation.

So, that is a 9. Now, based on this, you can see we have, we can multiply the weight of the firm's position with the market segment attractiveness and this can easily see that this segment therefore should attract high attention or this segment should attract high attention. So, this is how we combine the firm's priority or weight allocation with the market segment rating and based on that we come up with a composite score for again segmentation based targeting decisions.

Assessing Business Strengths: *Illustration*

The firm should ask the question: "To be successful in this market segment, any competitor must possess the following strengths..."

| Factor	Segment Weighting	Firm Rating (1 to 10 scale)	Factor Score (weighting x rating)
Deep pockets	10	9	90
Fast-moving organization	5	3	15
Good R&D	25	7	175
High-quality service	15	6	90
In-place distribution	20	5	100
Low-cost operations	10	4	40
Well-trained sales force	15	9	135
Total	100		**645**

And also the firm can ask questions like to be successful in this market segment a player must possess the following strengths. So, this is actually assessing the organization and its attributes with respect to segment analysis. So, with the statement that to be successful in this market segment, any competitor must possess the following strength. So we have identified this segment as a priority segment. And then we are saying that to be successful in that segment, a company must have deep pocket.

The company must be nimble, agile and fast moving. The company must have good R&D, high quality service and distribution strength in that particular for that particular segment, low cost of operation, well-trained sales force. So, good R&D has been given a very high weightage in terms of the segment weighting. And maybe the next level is the distribution strength. And the next level is the strength of the sales force.

And based on these factors and the weights, we can also evaluate the firm's current position on a scale of 1 to 10. And so we have the if the organization is a large organization and has deep financial resources or deep pockets, then we say that that factor score is 90. So, therefore, that gives us some kind of a direction. So we have 90, 175, 100, 135. So that gives us some kind of direction towards combining segmentation with targeting strategy.

Shifting Position

- left to right – improve business strengths
- bottom to top – conduct finer-level segmentation
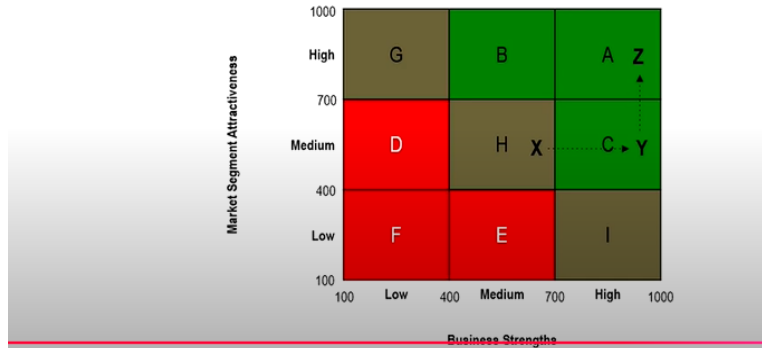
And as I was discussing when we discussed about that business strength versus segment attractiveness, that we take these approaches of moving horizontally left to right, will be for improving business strength and bottom to top will be to conduct more finer level of segmentation. So, these are some approaches for further developments of segment strength and targeting strength that we just we can evaluate looking at this particular diagram and those arrows that you see.

Perceptual Map: *Illustration – Micromotors*
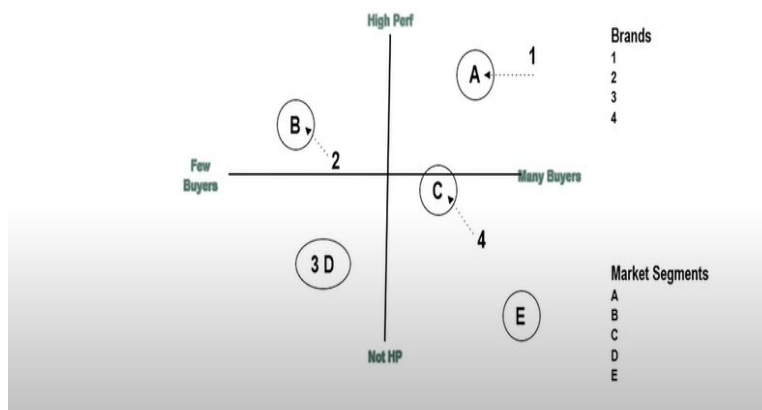
This is another way of representing the segments and targeting. So, so here you see this is actually a perceptual map always uses your position with respect to the competitors.

So, you suppose your brand is the brand number one. And then you can look at that brand number one is actually well positioned for segment A because in segment A means here we have In the y-axis, we have high. So, the x-axis of this graph, we have few buyers versus many buyers on the right and high performance capability versus not so high performance capability. So, we have brand number one, which is suppose our brand, the marketing organization, we are advising their brand. And that we can see is now well matched with segment A. Whereas there may be a competitor who is very well matched with segment B. And if we want to address our and we from this map, where we see our position with respect to the various competitors. We can decide that whether we will target for our growth the segment represented by B or the segment represented by C.

So, this is actually, we are already in a very strong position, but we can then decide whether we go towards absorb this segment or absorb this. So, this is another way of suppose for a micro motor manufacturer of brand called one, we are looking at different market segments that are possible whether suppose A is automotive, B may be a consumer durables, white goods and so on. And then we can see. So, actually, the white goods segment will perhaps be here where there are many buyers and not a very high performance required. So, and whereas high performance required versus many buyers could be automotive.

So, if brand one, which is quite strongly positioned for the automotive market, may decide to address the appliance market and that will be a growth opportunity where they will have to contend with the maybe the brand four and so on. So, these are the various ways we can position our current segment with respect to competitors and our future endeavor. So perceptual map or positioning map, as it is sometimes called, is a good way of understanding that how on the basis of segmentation, we can create current targets and future targets. So, at the conclusion of this, our discussion over two sessions on segmentation, targeting and positioning.

Think:

- Can you think of a small business and a big business which have created an advantage via successful STP?

I leave with you your own investigation that can you think of a small business and a big business which have created an advantage via successful STP? And I will request you to look at two organizations here.

One is Asian Paint and another is Tata Steel. And particularly interesting for you will be to understand how segmentation, targeting, positioning is well utilized by organizations. You should look at the Tata Steel and their segmentation for steel-based door frames and window frames. You will see how they, please visit their website and see how they have done the segmentation and how they are doing the targeting, canvassing promotions based on that segmentation. Thank you.