

MARKET SEGMENTATION

The what and why of segmentation

One of the fundamental principles of marketing is the concept of market segmentation. So much so that it is sometimes referred to as one of the potentially most creative areas of marketing. So what is it, why is it important and how has it changed in a web enabled world?

The starting point as ever is the Chartered Institute of Marketing's definition of marketing:

The management process responsible for the
identification, anticipation and satisfaction
of customer needs profitably.

Whilst this definition lacks a certain verve it does contain considerable food for thought. But let's concentrate on the part that refers to segmentation which is essentially . . . well . . . all of it!

In the UK there are just short of 5 million companies and around 60 million people. Putting it bluntly, no one company can satisfy the needs of all of these potential customers. This is the first justification for segmentation.

The second justification is a function of supply and demand. In a world where there is a shortage of supply segmentation is unnecessary as people will take whatever they can get. Conversely, when supply exceeds demand and people have a choice the product offer which best matches their needs will be chosen.

The third justification is plain common sense. If you can target a group of customers, your marketing is likely to be more effective as your product offer is designed to meet the sole needs of that group. Your product offer is no longer a one-size-fits-all solution.

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The logic of segmentation is well summed up in Wikipedia (http://en.wikipedia.org/wiki/Market_segmentation):

Market segmentation is a subgroup of people or organisations sharing one or more characteristics that cause them to have similar product needs. Market segmentation is the process in marketing of dividing a market into distinct subsets (segments) that behave in the same way or have similar needs.

Because each segment is fairly homogeneous in their needs and attitudes, they are likely to respond similarly to a given marketing strategy. That is, they are likely to have similar feelings and ideas about a marketing mix comprised of a given product or service, sold at a given price, distributed in a certain way and promoted in a certain way.

So segmentation is the way forward. Segment or die is a useful way of summing it up.

The remainder of Wikipedia's definition is also useful:

The process of segmentation is distinct from targeting (choosing which segments to address) and positioning (designing an appropriate marketing mix for each segment). The overall intent is to identify groups of similar customers and potential customers; to prioritize the groups to address; to understand their behaviour; and to respond with appropriate marketing strategies that satisfy the different preferences of each chosen segment.

So how do you go about it?

This is where life begins to get more complex. The theory is great but the practice can be more tricky. What we are looking for is a set of common attributes which separates one group of potential customers from another in a meaningful way.

Why meaningful? If we are to reap the benefits of segmentation we have to use the information in devising our marketing strategies. Typically this means purchasing direct mail lists, buying advertising space, formulating marketing messages etc. So whilst it would be nice to group people together according to some obscure facet of their personality or behaviour, in practice we have to compromise on some probably inferior attributes but which have the ability to take us to the next step.

So you need to keep an eye on the end game whilst choosing how to segment your customers. What criteria have the list owners used in their segmentation? Have a look at a few web sites to give you some ideas. Marketingfile.com is a good starting point (www.marketingfile.com).

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Typical consumer segmentation attributes are: gender, age, location, house type, subscription to a particular magazine, socio economic grouping. Acorn and Mosaic are two methods of grouping potential customers by lifestyle attributes. See also the criteria used in the census as it forms the basis of many databases.

Businesses share some of these characteristics. Size is a common one as is industry type and location. Regrettably little information is available on the processes being used which would be of real use to B2B marketers but you may be able to infer this from what is being made. Beware of using the SIC system as it can be very misleading. SIC codes are allocated when a company is formed and never seem to evolve as the business changes. More reliable are databases based on advertising where the company has stuck its head above the parapet and said 'look at me'. Yellow pages in its various formats, Kellys and Kompass fall into this category.

Earlier in this paper I commented that segmentation is an opportunity for creativity and yet you could argue that using the normal segmentation criteria can hardly be considered cutting edge. Fair point. Marketers have always been constrained by cost from trying out new things. Experimentation is expensive.

But the web changes this.

What is to stop you producing a completely new web site with totally different production values to your existing one? It could be edgy and aimed at a small subset of your existing market. It could even use the core of your existing web site without modification.

The cost of doing so are minimal. One hundred pounds a page in the UK, a quarter of that in India. Reaching a new market for such sums is marketing nirvana.

A bricks and mortar example. There is a church in America (where else?) that has a mixture of different churches on its campus each using a different style of service depending on the make up of the congregation. On the same campus you can choose a traditional service, a happy clappy service or a service with rock music. There is even a service held in a coffee shop so if you've missed breakfast you can have a coffee and a croissant followed by a communion wafer without leaving the building. The only time the churches come together is for the sermon streamed to each venue by video. One message, many different forms of delivery.

That's segmentation, that's marketing.

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