Chapter 5: Target Markets: Segmentation and Evaluation

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Objectives

1. Learn what a market is.
2. Understand the differences among general targeting strategies.
3. Become familiar with the major segmentation variables.
4. Know what segment profiles are and how they are used.
5. Understand how to evaluate market segments.
6. Identify the factors that influence the selection of specific market segments for use as target markets.
7. Become familiar with sales forecasting methods.
Types of Markets

Consumer Markets

- purchasers and household members who intend to consume or benefit from purchased products and do not buy products to make profits

Business Markets

- individuals or groups that purchase a specific kind of product for resale, direct use in producing other products or use in general daily operations
Types of Markets

– Consumer market

– Business market

Consumer Market and Business Market Ads

The producer of Altoids aims advertisements at consumer markets. The Intel ad is aimed at business markets.
• If a baseball team wants to purchase 12 cases of baseballs, with 24 balls in each case, is this an example of a consumer market or a business market?
Target-Market Selection Process

Before you begin the process, understand:

• **Market segment** – Individuals, groups, or organizations with one or more similar characteristics that cause them to have similar product needs

• **Market segmentation** – The process of dividing a total market into groups with relatively similar product needs to design a marketing mix that matches those needs

![Figure 5.1: Target-Market Selection Process](image-url)
Step 1: Identify the Appropriate Targeting Strategy

- **Homogeneous market**
  - customers having similar needs for a product

- **Undifferentiated targeting strategy**
  - a single marketing mix directed at the entire market
Step 1: Identify the Appropriate

- **Heterogeneous market**
  - individuals or organizations with diverse needs for products in the same class
- **Concentrated targeting strategy**
  - targeting a single market segment using one marketing mix
Step 1: Identify the Appropriate Targeting Strategy

- Heterogeneous market
- Differentiated targeting strategy
  - targeting two or more segments with a marketing mix for each
**Discussion Question**

- Do you think that Dell uses an undifferentiated, a concentrated, or a differentiated targeting strategy?

Visit Dell’s home page to see its strategy →
Target-Market Selection Process

Differentiated Targeting

Tostitos offers a variety of products and targets them at different market segments.
Step 2: Determine Which Segmentation

Segmentation variables – Characteristics of individuals, groups, or organizations used to divide a market into segments.
Examples of Demographic Variables

Figure 5.4 Spending Levels for Three Age Groups for Selected Product Categories
Discussion Question

• Click on the Television below, watch the commercial, and then discuss which **demographic** segmentation variable would be **best** for the product advertised.

• Which **demographic** variable would be **worst** for the product advertised?
Family Life Cycle Stages as a Percentage of all Households

Figure 5.5: Family Life Cycle Stages as a Percentage of all Households

- Single-earner couples with children: 19%
- Dual-earner married couples with children: 10%
- Multiple-member/shared households: 13%
- Childless singles aged 45 or older: 9%
- Childless singles under age 45: 9%
- Single parents: 7%
- Childless married couples aged 65 or older: 8%
- Childless married couples aged 45–64: 16%
- Childless married couples under age 45: 9%
Geographic Variables

• **Market density**
  – *number of potential customers within a unit of land area*

• **Geodemographic segmentation**
  – *market segmentation that clusters people in smaller units (zip codes, neighborhoods) based on lifestyle and demographic information*

• **Micromarketing**
  – *an approach to market segmentation in which organizations focus precise*
Examples of Geographic Variables

- Climate
- Terrain
- Urban/Rural Areas
- Population Density
- City Size
Psychographic Variables

- Personality characteristics
- Motives
- Lifestyles

Lifestyle Segmentation

In this advertisement, Garmin GPS targets people who enjoy an outdoors lifestyle.
Values, Attitudes & Lifestyles (VALS)

- Classifies consumers based on psychological characteristics that are correlated with purchase behavior and key demographics

- The VALS Survey
Behavioristic Variables

Usage Rates

Benefits Sought

Usage or Application Type
Benefit Segmentation

• The division of a market according to benefits that consumers want from the product

How can this ad be viewed as using benefit segmentation?
Variables for Segmenting

- Geographic Location
- Product Use
- Type of Organization
- Customer Size
Discussion Question

• Click on the Television below, watch the commercial, and then discuss which segmentation basis would be best for the product advertised.
Step 3: Develop Market Segment Profiles

• Describes the similarities among potential customers within a segment and explains the differences among people and organizations in different segments

– Benefits Include

• Determining most attractive segment or segments
• Potentially useful information for subsequent marketing decisions
Step 4: Evaluate Relevant Market

• Sales Estimates
  – Market potential (total amount of product customers will purchase in a specified period)
  – Company sales potential (maximum percentage of market share a firm can expect for a product)
  – Breakdown approach (measuring company sales potential based on a general economic forecast)
  – Buildup approach (measuring company sales potential by estimating how much of a product a buyer will purchase, multiplying by the number of potential buyers, and adding the totals of all geographic areas considered)

• Competitive Assessment

• Cost Estimates
Step 5: Select Specific Target Markets

• Identifying the right target market is the key to implementing a successful marketing strategy.

Numerous companies and software solutions are used to find customers and forecast sales.
Developing Sales Forecasts

• **Sales Forecast**
  - The amount of a product a company expects to sell during a specific period at a specified level of marketing activities.
  - **Methods include:**
    - Executive judgment
    - Surveys
    - Time-series analysis
    - Regression analysis
    - Market tests
    - Or, a combination of the above
Tools in Sales Forecasting: A Brief Overview

- Executive Judgment
- Surveys
- Multiple Forecasting Methods
- Market Tests
- Time Series Analysis
- Regression Analysis
Executive Judgment Defined

• Sales forecasting based on the intuition of one or more executives
• Unscientific
• Quick and inexpensive
• Works well in situations where demand is relatively stable
• Can be skewed by recent experiences
• Use of the past to project the future
Surveys

• Three types of surveys include:
  – Customer forecasting – surveying customers regarding types and quantities of products they intend to buy during a specified period
  – Sales force forecasting – surveying a firm’s sales force regarding anticipated sales
  – Expert forecasting – prepared by economists, management consultants, advertising executives, and others outside the firm

• Delphi technique – creating initial forecasts, submitting them to the company for averaging, then refining
Types of Analysis

• Time-series – using historical sales data to discover patterns in the firm’s sales, such as:
  – Trend – using aggregate sales data from many years to determine general trends
  – Cycle – analyzing sales for three to five years to assess consistent fluctuations
  – Seasonal – analyzing daily, weekly, or monthly sales to assess seasonal influences
  – Random factor – attempting to attribute erratic variations to random events

• Regression – predicting sales based on finding a relationship between past sales and one or more independent variables
Market Test

• Making a product available to buyers in one or more test areas and measuring purchases and consumer responses

• Information about actual rather than intended purchase behavior

Most firms use a variety of forecasting methods and techniques to accommodate different products and/or different time frames and to confirm and refine the forecasts.
After Reviewing This Chapter
You Should Be Able To:

1. Define what a market is.
2. Understand the differences among general targeting strategies.
3. Discuss the major segmentation variables.
4. Explain segment profiles and how they are used.
5. Discuss how to evaluate market segments.
6. Identify the factors that influence the selection of specific market segments for use as target markets.
7. Explain sales forecasting methods.
Key Concepts

- Consumer market
- Business market
- Undifferentiated targeting strategy
- Homogeneous market
- Heterogeneous market
- Market segmentation
- Market segment
- Concentrated targeting strategy
- Differentiated targeting strategy
- Segmentation variables
- Market density
- Geodemographic segmentation
- Micromarketing
- Benefit segmentation
- Market potential
- Company sales potential
- Breakdown approach
- Buildup approach
- Sales forecast
- Executive judgment
- Customer forecasting survey
- Sales force forecasting survey
- Expert forecasting survey
- Delphi technique
- Time series analysis
- Trend analysis
- Cycle analysis
- Seasonal analysis
- Random factor analysis
- Regression analysis
- Market test