3.2: Segmentation and Targeting Rationale

What you’ll learn to do: explain the purpose of segmentation and targeting in marketing

Segmentation and targeting are essential building blocks of marketing because they help marketers answer a basic question: *Who am I trying to reach?*

If you can’t answer this question with a reasonable amount of certainty and detail, your marketing efforts will probably not have much impact. You’ll spend a lot of time and money with little to show for it because you’re not choosing marketing tactics that fit your audience.

However, when you know your target audience, you can make smart decisions about your marketing activities: why they need your product, where and how to get their attention, what to say to generate interest, and what types of offers will attract them.

In this module, first we will focus on why segmentation and targeting are so important. Then we will discuss how to conduct segmentation and targeting and use these tools to guide marketing activity.

What Is Market Segmentation All About?

Segmentation helps marketers answer the following set of fundamental questions:

1. To whom should I be marketing?
2. Why *them*?
3. How can I reach them most effectively?

Because marketers have finite resources, they have to make decisions about how and where to focus their efforts. Market segmentation provides useful information about prospective customers to guide these decisions and to ensure that marketing activities are more buyer focused.

Market segmentation is the process of splitting buyers into distinct, measurable groups that share similar wants and needs. Once different segments are identified, marketers determine which target segments to focus on to support corporate strategy and growth.

Professional tennis players are a specific segment of the market.

For example, suppose your company produces high-performance athletic clothing. The market segmentation first identifies everyone with an interest in and need for this type of clothing. Then it identifies groups within the market that share common needs. These could include groups associated with different sports, levels of athletic activity, brand loyalty, fashion consciousness, price sensitivity, etc. As a marketer, you analyze the groups to determine which ones you want to focus on and why.

**Defining a Market**

In order to understand the purpose and benefits of segmentation, it’s helpful to step back momentarily and look at markets as a whole and how segments help us understand a market. A market is a group of potential buyers with needs and wants, as well as the purchasing power to satisfy those needs and wants. These buyers might be individuals, groups, businesses, or organizations. The “total market” constitutes all the potential customers for a given product. Potential customers share a common problem or business need that your product can address, and they share other characteristics as well.

In order for a market to exist, the following five criteria must be met:

1. There must be a true need and/or want for the product, service, or idea; this need may be recognized, unrecognized, or latent.
2. The person/organization must have the ability to pay for the product via means acceptable to the marketer.
3. The person/organization must be willing to buy the product.
4. The person/organization must have the authority to buy the product.
5. The total number of people/organizations meeting the previous criteria must be large enough to be profitable for the marketer.

If these criteria aren’t met, there probably isn’t a viable market for your product(s).

**Segments within a Market**

Markets are generally large entities that require significant investment to serve effectively. In fact, markets may be so large that it isn’t feasible for a marketing organization to market their products effectively to all potential customers at the same time. A product provider might ask, “Given that my product will not be needed or wanted by all people in the market, and given that my organization has certain strengths and weaknesses, which target group(s) should I focus on?”

The answer to this question comes through market segmentation. Segmentation is a twofold process that includes:

1. Identifying and classifying people into homogeneous groupings, called segments
2. Determining which of these segments are viable target markets.

In essence, the marketing objectives of segmentation are:

- To improve an organization’s understanding of who their prospective customers are and how to serve them
- To reduce risk in deciding where, when, how, and to whom a product, service, or brand will be marketed
- To increase marketing efficiency by directing effort toward designated segment(s) in ways that are consistent with that segment’s characteristics

While, in theory, there may be “ideal” market segments for any given product, in reality, every organization engaged in a market will develop different ways of imagining market segments and create product differentiation strategies to exploit those segments. With a refined understanding of market segments, companies can differentiate their products to fit the
needs of a particular segment. They can also use segmentation analysis to identify and create competitive advantages with their target audiences. A deeper understanding of their target audiences can guide marketers’ choices in how they develop and promote products, how their products are delivered and priced, and so forth.

**Focusing on the Target Market**

It is rare that any single product will be an ideal fit for every member of an entire market. For example, no single shampoo is perfect for everyone on the planet. No single printer or cleaning service is ideal for every organization in the world. Buyers have different sets of needs. Segmentation acknowledges that different people and groups have different needs. Successful marketers use segmentation to figure out which groups (or segments) within the market are the best fit for the products they offer. These groups constitute their target market.

The target market should include only those segments of a market that are both profitable to serve and likely to be receptive to the products a company provides. Time, money, and effort spent on marketing will be most effective when it focuses on these target audiences. When organizations don’t identify a target market, they dilute the impact of their marketing resources because they are spending money and effort trying to attract people who are unlikely ever to become profitable customers.

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