

Market Segmentation

Market segmentation is the process of subdividing a large undefined market into smaller groups of consumers with similar spending pattern. To a manufacturer of consumer goods, market segmentation is profitable when consumer needs and wants are heterogeneous.

Segmentation enables a firm to effectively allocate marketing resources to satisfy the needs and wants of a well-defined group of consumers. There are a host of benefits that a firm can reap via segmentation besides effective allocation of marketing resources. Market segmentation facilitates better identification of marketing opportunities, provides guidelines for developing separate target market groups, guides the product's positioning relative to consumer needs and competition and it also provides guidelines for new product development.

In a poor or developing country where purchasing power is limited, its consumers purchase mostly mass produced, low price goods that are highly standardized and cheap to produce. But as a society becomes more affluent, its consumers would expect more from the products they purchase. They would now be able to afford unique products that are designed for their specific requirements. This gives rise to niche marketing i.e. when a product is uniquely designed and targeted towards a narrow but loyal segment. Due to low volume generated from such niche segments, average cost of production is usually high since firms would not derive economies of scale. However, since such niche groups have higher purchasing power, firms can charge higher prices.

Market segmentation enables a firm to identify the characteristics of specific groups and their specific preferences thus discovering the suitable product range to develop according to the different groups' ability to pay, price sensitivity and the type of advertising and promotion they respond to. Consumers would purchase a product only if it gives them satisfaction. Therefore, by designing a product tailored accordingly would ensure success for a firm. This reduces the risk of introducing a new product.

Market segmentation enables a firm to identify the more lucrative markets and abandon the declining, unprofitable ones. There are always some group of people who would never purchase a particular product. Marketing resources could therefore be put to more effective use by concentrating on the group{s} that are likely to purchase a product. This avoids wastage thus making a firm more profitable. It allows a firm to streamline advertising and promotion budget and devise a suitable marketing concept to cater to the target group to achieve a more effective response.

Market segmentation can also enable a firm to detect changes in consumer tastes and preferences over a period of time. Accordingly, changes and improvements can be made in the product or new products can be developed based on value analysis. Different segments also respond differently to a given marketing mix. Through segmentation, a firm can devise a marketing strategy by varying the marketing mix for different segments for better results.