

KEY TERM

segmentation analysis: where a firm uses quantitative and qualitative data or information to try to discover the types of consumer who buy its products and why.

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Remember that market segmentation is based on customers rather than markets or products. It is a method of putting different customers into categories, to help a firm market its products.

demographic and geographic segmentation. Two alternative approaches have been noted at the end of this section for information only.

Demographic segmentation

The main forms of demographic segmentation are age, gender and social class, although residential/housing methods are also popular.

- **Age.** For many products and services, age is a crucial influence on demand, so firms will segment on this basis. Holidays are a classic example: Club 18–30 targets its holidays at a specific age range, while Saga holidays are aimed at people aged over 50 years. Large firms try to provide a range of products that will reach all ages. A magazine publisher will produce different magazines for teenagers, 20- and 30-somethings, the middle-aged and the elderly.
- **Gender (sex).** Some products are targeted specifically at males or females. The market for perfume is dominated by females, while attendance at sporting events has been dominated by male customers. However, in both these cases, firms have recognised the potential for growth by targeting the other gender.
- **Social class.** This method classifies families according to occupation:

I/A	Professional
II/B	Managerial and technical
III/C1	Skilled: non-manual
III/C2	Skilled: manual
IV/D	Partly skilled
V/E	Unskilled

In general, social class influences purchasing habits because class A receives more income than class B and so on. However, there are some activities that may appeal to particular social classes regardless of income: for example, golfers are more likely than football supporters to be from the middle classes, A, B and C1.

- **Residential.** One of the main residential methods is ACORN (A Classification Of Residential Neighbourhoods). This segments the market according to types of housing. Over 30 different categories of housing are identified by this technique. Families in suburban detached houses are expected to have very different tastes from those living in terraced houses in rural areas. Postcodes can be used to identify these segments, helping firms to target their marketing.

Geographic segmentation

Although regional variations in taste are becoming less significant, there are still major differences in tastes and purchasing behaviour based on geographical features. Rambling, surfing, theatre visits and night-clubbing are all



activities that are influenced by the place where someone lives. Geographic variations may be linked to regions (e.g. differences in tastes between the north and south), to the differences in spending patterns in urban as opposed to rural areas, and to geographical features such as the terrain and climate.

Other segmentation methods

- **Lifestyle.** This type of segmentation is becoming more popular as businesses can use credit card and loyalty card records to identify the pattern of individuals' expenditure. Family food purchases are classified into categories according to the tendency to buy takeaways, organic food, economy brands, health foods etc. Leisure pursuits are also used to segment customers for marketing purposes.
- **Usage/frequency of purchase.** Some customers, known as 'early adopters', like to be the first to try new products; in contrast, 'followers' are more cautious. Awareness of these customer types allows a firm to target the right people. Similarly, consumers can be classified according to how often they purchase products. A frequent purchaser will have a different view of a product from an occasional, casual user.



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Market segmentation is becoming much more sophisticated because databases can now provide firms with quite detailed data on consumers. Loyalty cards and credit or debit card transactions also enable firms to identify potential customers more accurately. This has led to an increase in direct mail promotions to customers.

What type of segmentation?

The exact type of segmentation used depends on the business or the product. For example, in the case of clothing, gender is important and so is age, especially for children's clothing. Not every type of segmentation is used by every business. In general, organisations identify the market segment or segments that are relevant to their products and services. Products, services and the organisation's approach to marketing is then geared to the targeted segments.

FACT FILE

Market segmentation of social networks in the UK

In the USA, Facebook is reputed to appeal to richer people from 'higher' social classes. Does this feature apply to UK users too? This is vital information as advertisers want to know who their adverts are reaching so that they can target customers effectively.

Table 6.1 shows the breakdown of the three leading social networks, all of which tend to target younger age groups.

Table 6.1 Profile of social network users in the UK

Source: Nielsen/Net Ratings, July 2007.

	Bebo (%)	Facebook (%)	MySpace (%)
Age			
2-17	32	5	15
18-34	33	66	46
35-49	23	14	24
50+	12	15	15
Household income			
Under £30,000 p.a.	46	40	45
£30,000-£49,999	27	25	26
£50,000 and over	20	28	22
Education			
Still at primary school	11	2	5
At secondary school	23	6	13
Completed secondary school	12	9	13
In further education	30	34	36
Taking degree course or completed	24	49	34

Benefits and drawbacks of market segmentation

The benefits and drawbacks of market segmentation apply generally to all the types of segmentation. However, the extent to which a particular organisation might benefit from segmentation depends on the degree to which:

- a particular segment can be easily identified
- consumer behaviour varies according to market segmentation
- the firm is able to reach that segment directly in its marketing and market research

Benefits of market segmentation

There are several benefits for businesses that use market segmentation:

- **To increase market share.** An organisation can identify market segments that have not been reached and adapt its products and marketing to reach those segments. For example, Mothercare extended the age range of its products to attract older children and mothers.
- **To assist new product development.** Gaps in market segments can be used to indicate the scope for introducing new products. Originally, software offered with new computers tended to be games. These offers have been extended to appeal to more segments by including Microsoft Office, photographic processing, music and educational software.
- **To extend products into new markets.** Mobile phones were initially targeted at business users before being extended to teenagers and then whole families.
- **To identify ways of marketing a product.** A company that recognises its customers' characteristics can target its advertising to media used by that market segment. For example, someone in social class A is most likely to read *The Times*, whereas someone in social class E has a greater tendency to read the *Star*. Similarly, promotional methods and messages can be



modified to suit specific segments — for instance, young people prefer different images from older consumers.

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In questions on market segmentation, identify and focus your arguments on the market segment or segments that are relevant to the product or business in the case study. For example, suppose that the target market is young males. In this case, the firm should place advertisements in magazines read by young males, using messages or characters that will excite their interest. The features of the product should be those that will appeal to young men.

Drawbacks of market segmentation

Segmentation analysis may involve the following problems:

- **Difficulty in identifying the most important segments for a product.** Successful segmentation requires market segments to be identifiable, reachable and distinct. In practice, a business may be unable to categorise its customers. Some segments, such as gender, are easy to identify, but it is more difficult to put consumers of bread, household cleaners and pillows into categories.
- **Reaching the chosen segment with marketing.** Lifestyle categories in particular are difficult to identify or locate. Which media would you use to attract primary school parents on a national scale? In general, socioeconomic class tends to be the most difficult of the demographic segments to target.
- **Recognising changes in the segments interested in the product.** Markets are dynamic and businesses cannot assume that an existing segment will always stay loyal to a product. Thus businesses must constantly research their market segments.
- **Meeting the needs of customers not included in the chosen segment.** Emphasis on market segmentation may lead to a business ignoring other potential customers. This may prevent a business from attracting the mass market.

DID YOU KNOW?

Sometimes it is important to identify the *buyer* rather than the *consumer* when segmenting a market. Surveys show that women buy more male underwear than men. Similarly, when it comes to selling make-up to young girls, up to the age of 12, mothers are most likely to make the decision; from age 13 onwards, they have less say. Such information can make a big difference to the way in which a product is marketed.

Market mapping

Market mapping is a technique that uses market segmentation to look at the features that distinguish different products or firms. In the case of the car market, people may buy cars because they are:

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Use the mark allocation as a guide to the length of your answer. After allowing for reading and planning time (15 minutes on BUS1), AQA A-level business studies papers tend to use the same formula: a mark a minute.