

Have We Met?

Market Identification

Objectives

- A** Explain the importance of market identification.
- B** Discuss ways that a market can be segmented.



1375 King Avenue, P.O. Box 12279, Columbus, Ohio 43212-0279

Ph: (614) 486-6708 Fax: (614) 486-1819

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Think for a moment about two classmates who seem to be different in every way—the class clown and the honors

student, the musician and the athlete, or some other combination of your choosing. Guess what? No matter how unlike these two may appear to be, they have several things in common. They are close in age, attend the same school, and live in the same geographic area. They might even like the same flavor of ice cream or use the same social apps. Regardless of their differences, these two individuals, along with you and the rest of your classmates, can be grouped in a number of ways—by their similarities.

You may be glad to know that you and your classmates have some things in common. But, marketers are even *more* excited about it—because grouping is how marketers find their customers and figure out what it takes to meet these customers' needs.



Tablet buyers have different motives and different price expectations that marketers need to identify. ►

Who's in the Market?

Anyone can buy a product, right? Well, not really. The people who can buy a product are those who want that good or service, have the resources to purchase it, and are willing to make it a reality. For marketers, knowing which people fit these requirements is key. In any business, a customer or potential customer who has an unfulfilled desire and is financially able and willing to satisfy that desire is a **market**.

Are You Ready, Willing, and Able?

Anytime you have an unfulfilled desire (you need a good or service), there's a marketer somewhere who wants to meet your need. If you need a tablet such as an Apple iPad or a Samsung Galaxy Tab, for instance, you have a "problem" which the marketer "solves" by providing a tablet for you to buy.



*Only individuals with ready money ►
to buy are part of a market.*



But, needing or wanting a product isn't enough. If you don't have enough cash to buy a tablet, you're not part of the tablet-buying market. Finding customers with the money—the financial ability or the resources—to purchase a product is just as important as knowing who has an unfulfilled desire.

There's one more thing to consider, though. If you need a new tablet and have the money to buy one—do you? Only if you're willing to spend your money on a particular tablet right now. This means that marketers have to look carefully at which customers have the desire, the capability, and the willingness to have their needs met—soon. Customers who match all of these requirements form a market.

Who's the Target?

Say that you fulfill all of the requirements and are part of the tablet-buying market. Tablet producers want to know what specific features you desire. So, the question that you need to answer is: What type of tablet are you looking for? If you're an Apple fan wanting to store and watch video, you may be looking for an iOS operating system with a high quality screen resolution, long battery life, and large memory capacity—all at a reasonable price.

Unfortunately, though, it's not practical to manufacture a tablet specifically designed for each individual customer. Instead, tablet producers split their customers into categories, or groups, according to what they have in common and make products that will meet the needs of the smaller groups they've identified. Based on what you are looking for in a tablet, you fit into at least five categories:

- Customers who prefer an iOS operating system
- Customers desiring a high quality screen resolution
- Customers expecting long battery life
- Customers looking for a tablet with a lot of memory
- Customers seeking a good value

Fortunately, some of these groups can be combined—providing greater efficiency in satisfying customers' needs. For instance, tablet producers might combine the groups of customers who want a high quality screen resolution and long battery life to meet the needs of video fans. Other customers who have those same needs are in the same specific market as you—a group known as a **target market**. By grouping customers by their similarities and pinpointing the particular group of customers that it seeks to attract, a business can meet customer needs effectively. Marques Brownlee's video "Are Tablets Dead?" explains how tablets serve the needs of specific types of buyers:

<https://www.youtube.com/watch?v=2JIDVUcedbo>.



▲ *Finding a target market can help companies effectively develop and promote their products.*

Just as customers are targeted in the **consumer market**, businesses are targeted in the industrial market. The **industrial market** is composed of businesses that purchase items for use in the operation of the business, for resale, or for making other goods. Its members include producers, government agencies, wholesalers, retailers, etc. Although the consumer market has more members, more sales are made to the industrial market.

THE GRAY ZONE

Have you ever noticed that the toy department aisles in any typical big-box store are divided into boy and girl sections? Some aisles target boys with Transformers and action figures, while others overflow with dolls and princess costumes promoted to girls. The Lego sets marketed to boys include construction and space exploration. The Lego sets designed for girls, on the other hand, feature shopping and home life.

In a nation that has seen significant changes in gender roles and stresses gender equality and equal rights for all, why do toy manufacturers continue to produce and market toys that tell boys to be powerful, adventuresome, and ready for battle? Why are girls specifically encouraged to become nurturing, compassionate individuals who take care of the family and the home?

Is the approach that these corporations have taken to selling toys appropriate and ethical? Are they simply providing the toys that boys and girls prefer? Or, are they perpetuating gender stereotypes? What do you think?

In short, marketers look at the entire market, identify the categories they see, and select the category (or categories) to fit what they intend to accomplish. This identification and selection of markets for a business or for a product is called **target marketing**. And because marketers target both customers and businesses for many reasons, it's possible for the same person or business to be included in more than one **target market**.

How Much Do You Want?

Businesses can plan their target-market activities in a couple of broad ways: mass marketing and segment marketing. Let's look at each of these ways of developing a target market.

Mass marketing. When sellers design products that will appeal to most buyers and direct their marketing activities to the whole market, they are using **mass marketing** (also sometimes called **undifferentiated marketing**). The goal, or plan, of mass marketing is to appeal to many types of customers through one marketing plan. Products with wide appeal such as soft drinks, candy, and snacks are usually marketed to a large group. For example, the TV commercial "Lay's Mrs. Potato Head," posted by Audio Producers Group, shows a mass marketing approach that appeals to the young and the young at heart: <https://www.youtube.com/watch?v=6K1QBdE1Xyk>.

Advantages. One of mass marketing's advantages is that it can be used to communicate a broad message to a large audience—a strategy that works especially well when a product is first introduced, when it has only a few features, or when it appeals to a wide variety of people. Another advantage is that mass marketing allows a business to produce one product for everyone, which is more cost-effective than producing and marketing several products to several target markets. And ultimately, mass marketing provides the most possibilities for success at the lowest cost.

One of the newest target-market activities is micro-marketing. Marketers who adopt this approach individualize their marketing programs for each customer—often via the Internet. A business may develop and share personalized product recommendations with a customer based on what s/he has purchased in the past, or the customer might have the opportunity to "build his/her own" product using interactive software online. The "Shoes of Prey on Good Morning America" video highlights a custom shoe that has embraced micro-marketing: <https://www.youtube.com/watch?v=VR1XYxTcXiQ>.

Disadvantages. What causes a problem, however, is the diversity of the mass marketing audience—everyone. Since customers are different from one another, marketers know that only a small percentage of the mass market is likely to purchase the product. The product simply isn't appropriate for everyone in the mass market. Unfortunately, a large portion of the market is going to look elsewhere for products that better fit the customers' needs and wants.



▲ *Shampoo is a highly segmented product, with shampoos for dry, straight, curly, thin, or thick hair.*

Segment marketing. Marketers have become increasingly aware that people are not alike. People have different product needs and even different reasons for buying. Their needs and preferences are so varied, in fact, that there could almost be as many differences in customer likes and dislikes as there are customers. Because of these differences, marketers often divide the total market for their products into smaller, more specific groups, or **market segments**. This process is known as **market segmentation**.

It works like this: Rather than trying to direct marketing activities at the whole market, marketers plan their activities for specific, well-defined groups of customers. They tailor their product, price, place, and promotion activities to the segments with which they choose to work. They might want to focus their efforts on one of the segments, a few of the groups, or all of the groups within the total market. The MIT Bootcamp video "How to Do Market Segmentation—Demo" shows a team of young entrepreneurs identifying specific markets for a new technology:

<https://www.youtube.com/watch?v=11qEHsvq7ec>.



◀ *Athletic shoes are produced for sporting activities, casual wear, and fashion-conscious buyers alike.*

Advantages. Segment marketing works because finding out what customers need—and meeting that need—is at the heart of the marketing concept. Plus, when it comes to determining customers' needs, segment marketing is more precise than mass marketing. Because of the small size of each segment, this type of marketing allows for a finely-tuned product, an appropriate price, and ease of distribution. And segment marketing encourages effective communication because its message is targeted to a specific market segment. For example, an athletic shoe maker may focus on one particular type of athlete, as seen in the adidas video: "Shaunae Miller: Speed Takes Confidence": <https://www.youtube.com/watch?v=WaxBdtxnAhU>.

Both large and small companies can benefit from segment marketing. When they utilize market segmentation, they make more efficient use of their resources by focusing their activities on what their customers want. Small firms are able to be competitive by focusing their efforts on one or a few markets, rather than trying to be everything to everybody.

Disadvantages. The downside to segment marketing is that it takes more resources to pull it off successfully. Since the product is usually more complex, it can be more difficult to produce—requiring more creativity during design and more money during production.

Why use of segments is increasing. Even though it can be more difficult and costly, the use of segment marketing is increasing. Why? Today's customers are better educated and more discerning in the purchases that they make. Many times, products that are designed for everyone are not seen as meeting individual needs. Today's customers want to know, "How will the good or service benefit us directly?" And, thanks to improved marketing research methods and market segmentation, marketers can answer today's customers correctly.

Summary

Marketers must determine the market for their goods and services. A market is a customer or a potential customer who has an unfulfilled desire and is financially able and willing to satisfy that desire. The identification and selection of markets for a business or for a product is known as target marketing. By determining a business's target markets, marketers are able to plan their marketing activities. The activities will either be planned for a mass market so that the product will be everything to everybody, or they will be planned for specific, well-defined groups, or segments, of the market.

TOTAL RECALL

1. Who can buy a product? Why?
2. Explain the difference between a market and a target market.
3. Explain the target marketing process.
4. What are the two types of target-market activities?
5. Describe the advantages and disadvantages of mass marketing.
6. Describe the advantages and disadvantages of segment marketing.
7. Why is the use of segments increasing?



How Would You Describe Them?

Have you ever played the Halloween party game that involves putting your hand into a box and touching all of the creepy, crawly things inside? In many cases, just a word from someone in the crowd is enough to make the imagination run wild—peeled grapes become eyeballs, spaghetti becomes brains, and dangling threads become cobwebs.

While touching the unknown contents of a box may be fun at a party, it's not fun in business. Businesses simply can't afford to operate as if they are guessing what's in a box—or who their customers are. Instead, they need to know as much as possible about their customers or potential customers to efficiently market their products. There are a variety of factors that marketers can consider to learn about their markets, including demographic, geographic, psychographic, and behavioral characteristics. These characteristics serve as the bases for segmenting (dividing) markets into smaller groups.

Demographic Segmentation

Demographic segmentation divides a market on the basis of its physical and social characteristics, including gender, origin or heritage, religion, **socioeconomic status**, and life stage. On its own, demographic segmentation does not necessarily provide enough information for marketers to make informed decisions about how to market products to each segment. But, as a starting point, this method helps marketers discover some valuable information.

*Different individuals require very ►
different tools, clothing, and services.*



Gender or sexual orientation. Though marketers know that groups are never completely identical, they know that one quick way to classify their customers is by gender—because gender can indicate purchase preferences. For products created specifically for men or women, such as clothing and cosmetics, dividing customers by gender is especially helpful.

However, sexual orientation, alternative lifestyles, and perceptions of gender identity complicate the use of gender to segment markets. Some businesses are following the trend toward gender-neutral marketing, appealing to people's desire to choose products based on their individuality instead of their gender. Toy manufacturers, in particular, are responding to parents' and children's desire for toys that don't reinforce traditional gender roles and stereotypes. Hasbro's gender-neutral redesign of its toy oven is explained in the ABC News video "Girl, 13, Helps Transform Easy-Bake Oven":

<http://abcnews.go.com/GMA/video/easy-bake-oven-boys-girl-13-helps-transform-18004650>.

Origin or heritage. Marketers also group customers by background. Race, ethnicity, nationality and other elements of a customer's heritage might indicate purchase preferences. Social issues, cultural issues, and even immigration can also affect customers' purchase preferences. When people migrate to another area, they may adopt some new tastes or perhaps influence their new society. In recognition of its growing Chinese and Chinese-American market, for instance, the NBA created a commercial celebrating Chinese New Year:

<http://adland.tv/commercials/nba-chinese-new-year-secret-envelope-2017-30-usa>.

Consumers of different ages, genders, and heritage have different needs, wants, and values.



Religion. Whether or not you're part of an organized religious group, your personal beliefs affect your actions—and what you choose to buy. Preferences affected by personal beliefs include entertainment options, fashion alternatives, and food selections. For example, a Muslim woman is much more likely to purchase a hijab head scarf than a bikini bathing suit. So, marketers take note of the preferences which correspond to personal beliefs—and provide products in keeping with what their targeted customers want.

Socioeconomic status. Socioeconomic status is an economic and sociological measure of a person's income, education, and occupation. By dividing customers into different groups based on their earnings, level of education, and jobs, marketers can determine what different customers are likely to buy. Better educated individuals, for instance, are more likely to demand higher quality products. Likewise, high-income customers have more money to spend on such products as expensive jewelry, vacation packages, and cars. Knowing a customer's socioeconomic status gives marketers insight into that customer's purchase preferences and financial capability.



◀ *The travel industry targets individuals with the time and money to travel.*

Life stage. Another important way to group customers is by their current stage in life. Age, generation, marital status, family life cycle, family size—whatever the determining factor, marketers want to know where customers fit in the day-to-day buying routine. Are customers buying toys, smartphones, or hearing aids? Do they need retirement-planning assistance, car-pooling opportunities, or childcare services? When marketers categorize customers by where they are in life, they can quickly discover their needs and what to do to meet them. Theme parks like Disney, for example, use life stage to create special trips for both young families and older adults with grandchildren.

Geographic Segmentation

Grouping customers according to where they are located is geographic segmentation. It is one of the oldest methods of market segmentation. Customers are grouped on the basis of such geographic divisions as regions, states, cities, and neighborhoods.

For some products, the use of geographic segmentation is easy to understand. Customers in cold climates will be the market for heavy, warm clothing, while people in hot climates will prefer sunscreen and lightweight clothing.

For other products, geographic segmentation helps marketers determine where to concentrate their marketing efforts. Should a company be marketing in cities of a certain size or in rural areas? Are more products sold on the east or west coast? These types of questions can be answered through geographic segmentation. To see what you can conclude about bicycle commuting, check out the U.S. Census Bureau's "Bicycling to Work" infographic at

http://www.census.gov/content/dam/Census/newsroom/releases/2014/cb14-86_graphic_biketowork.jpg.



Jochen Sand/Digital Vision/Thinkstock



Kraig Sabatinsky/Digital Vision/Thinkstock

▲ *Climate determines whether individuals need hats or sunglasses.*



◀ *Nature lovers and outdoor adventurers represent a lifestyle likely to buy camping products.*

Psychographic Segmentation

Lifestyles and personalities of customers are used as the basis for psychographic segmentation of markets. **Lifestyle** refers to the way in which people lead their daily lives as determined by their income, interests, and activities. Examples of some of the activities that marketers might be interested in examining are interests in specific sports, travel, fashion, or hobbies. A customer who is interested in camping, for example, is a natural market for tents, sleeping bags, lanterns, and other outdoor gear.

Personality is defined by a person's individual qualities or traits and behavior. It affects the person's buying decisions. Therefore, marketers try to match customer personalities with products. For instance, adventurous individuals may be more likely to use action cameras as seen in the GoPro video "Best of 2016—A Year in Review": <https://www.youtube.com/watch?v=Jc8VaMQ5aOo>.

Psychographic characteristics are difficult to measure. It's much easier to determine whether a person is old or young than it is to determine a customer's personality. However, psychographic characteristics do provide valuable information to marketers. The complexity of identifying why people buy is explained in the Shopify video "Chapter 2: How to Determine Your Target Market": <https://www.youtube.com/watch?v=yKdylkCiy10>.

Behavioral Segmentation

Dividing customers into groups according to their response to a product is behavioral segmentation. Customers are grouped into categories based on what they are looking for in a product and why they buy the product. Types of behavioral segmentation are rate of use, benefits derived, loyalty response, and occasion response.

Rate of use. Segmentation on the basis of usage rate classifies customers as heavy, moderate, light, or nonusers of a product. As an example, some customers buy soft drinks for use as beverages. Heavy users of soft drinks might consume soft drinks throughout the day, and as the main beverage with every meal. Moderate soft-drink users might consume the beverages only at lunch or dinner. Customers classified as light users of soft drinks might consume soft drinks only when they eat certain types of food, such as hamburgers or pizza. Nonusers would not consume soft drinks at all. Marketers would concentrate on the heavy and moderate users because they purchase more of the product than light users.



◀ A customer may only need a pint or quart of paint for a small project, while others may need several gallons.

Benefits derived. The same product may be purchased by customers to satisfy different needs and wants. For instance, one customer may purchase a designer handbag because of its high quality, while another customer may be more interested in carrying it as a status symbol. Classifying customers on the basis of benefits they desire from products helps marketers to provide the durability and quality demanded by the public.

Loyalty response. By studying the common traits of loyal customers, marketers can determine what they have in common and can plan to attract other customers who have similar traits. Let's say that Cami only buys True Religion brand jeans, and she buys them only because of True Religion's image. Regardless of the price and availability of other brands of jeans, she will only purchase the one brand. Cami is exhibiting a loyalty response to the product.

Occasion response. Birthdays, holidays, weddings, and graduations are examples of special occasions that prompt spending trends for some products. The sale of watches and laptops increases at graduation time, while the sale of china, sheets, and towels increases during peak times for weddings. By studying the occasion responses of customers, marketers can predict what special events result in demand for products.

Graduation and wedding season is a busy time for bakeries with orders for custom cakes and treats. ►





Summary

Marketers use customers' similarities to group them into categories useful for predicting purchase behavior. Common grouping methods include demographic segmentation, geographic segmentation, psychographic segmentation, and behavioral segmentation. Whether by general characteristics, residential location, lifestyle and personality, or responses to products, marketers learn more about their customers' needs through market segmentation.

TOTAL RECALL

1. How do marketers divide their markets?
2. In demographic segmentation, what characteristics do marketers consider?
3. How do marketers use geographic segmentation?
4. What is psychographic segmentation?
5. What are four types of behavioral segmentation?

Make It Pay!

If marketers were grouping you, what categories do you think they would use? Where would *you* fit in the demographic, geographic, behavioral, and psychographic segments? Are you a middle-income, East-coast, brand-loyal trendsetter? Or, perhaps, a high-income, Southern, occasion-buying collector?

Take a few minutes to examine your unique characteristics. How are you similar to your family members and friends? In what ways are you different? How do you think your similarities and differences affect your purchase decisions?

Now, ask yourself what you think marketers would do to target you—if they knew what *you* know.