STRATEGY AND ORGANIATIONAL STRUCTURE

Lecture 1: Introduction to market segmentation

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Target audience: MASTER II students- Strategic Management

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- For the most of the twentieth century, major consumer-products companies held fast to ***mass marketing*** which refers to the use of the same product, promotion and distribution for all consumers. This marketing approach is called ***undifferentiated marketing.***
- The traditional argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can translate into either lower prices or higher margins.

- **However, many factors now make mass marketing more difficult. That's why, many companies are turning to *differentiated marketing*.**
- **The *differentiated marketing* occurs when a company markets different products or services to different segments of consumers.**
- **And thus, this consumer oriented base has shed light on the fact that the preferences of consumers need to be known in the business world, so, *market segmentation* must be done.**

- **Definition of market segmentation**

- Wendell Smith (1956) was the first to propose the use of segmentation as a marketing strategy.

- Smith defines market segmentation as viewing a heterogeneous market (one characterized by divergent demand) as a number of smaller homogeneous markets. Conceptually, market segmentation sits between the two extreme views that:

(a) all objects are unique and inviolable and

(b) the population is homogeneous.

- **Definition of market segment**

- A market segment is a group of individuals, groups or organizations who may share the same interests, traits and characteristics. Therefore, businesses should ask themselves which segments should they serve?.
- To answer this question, the businesses must determine the most appropriate ways to distinguish and to differentiate their segments.
- Once the segments have been identified they must customize their offerings to satisfy each and every one of them.

- **The benefits of market segmentation:**
- Market segmentation is a key strategic decision area for businesses in all industries. The underlying logic is that customers demonstrate heterogeneity in their product preferences and buying behavior.
- Segmentation theory proposes that groups of customers with similar needs and buying behavior are likely to demonstrate a more homogeneous response to marketing programs.
- Businesses applying a segmentation approach therefore can deal with diverse customer needs by focusing resources on particular customer groups with relatively homogeneous requirements.

- This allows for a more efficient application of resources and ensures that customer offerings are carefully targeted and this leads to an increase in competitive advantage.
- Businesses engaging in segmentation are encouraged to carry out detailed customer and competitor analysis. Such analysis allows the business to become more in tune with customer and competitor behavior. This leads to a better understanding of customers' needs and wants, allowing greater responsiveness in terms of the product or service offer.
- Also, the company that discovers the customers' requirements and is able to customize the products and services in the most effective way will be successful.