

Market Segmentation and its Types – Geographic, Demographic, Behavioral, Psychographic

Lesson Notes

Market Segmentation

Market segmentation is the means of dividing a market of customers into groups or sections, based on various characteristics. These groups include consumers who respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations.

Customers are segregated based on meeting specific criteria or possessing similar characteristics that result in them having the same product needs.

Types of Market Segmentation

Marketers identify different segments of customers by distinguishing them on the following bases:

1. Demographic
2. Geographic
3. Behavioural
4. Psychographic

1. Demographic segmentation

It is a very general type of segmentation.

Demographic variables include

1. Age
2. Race
3. Family size
4. Family life cycle

5. Gender
6. Income
7. Occupation
8. Education
9. Religion
10. Generation
11. Nationality
12. Social class.

They are popular with marketers because they are often connected with the consumer's needs and wants. It is also one of the easiest ways to divide a market. Combining demographic segmentation with another type of segmentation helps in narrowing the target group of customers in a market.

Example – Nike Pro Hijab

The offering from Nike is the perfect embodiment of several demographic elements such as gender, age, religion, generation and social class. Nike in 2017 started retailing its first-ever performance hijab for Muslim female athletes.

Made with lightweight, breathable fabric, the Nike Pro Hijab wicks away sweat and stays tucked in during any workout or competition. Selling for \$35 the hijab is available in black in all sizes from extra-small to large.

Nike spent considerable time working on the Pro Hijab beside a host of Muslim female athletes including American fencer Ibtihaj Muhammad, Emirati figure skater Zahra Lari, and UAE weightlifter Amna Al Haddad, who contributed towards the brand with their feedback on its prototypes.

Nike's sports hijab has become one of the most-searched-for apparel items in the world. In the first quarter of 2019, Nike's reputation rose by 125% and entered the top 10 most-wanted luxury fashion items.

2. Geographic segmentation

Geographic segmentation classifies the market into smaller geographical units such as

1. Nations
2. States
3. Regions

4. Counties
5. Cities
6. Neighbourhoods.

In this way, the firm can operate in one or a few areas at a time, or it can operate in all but pay close attention to local variations. This includes segregating the market based on location. Even though it is a basic form of segmentation, it proves to be highly effective.

Knowing where a customer is located helps the company properly understand the needs of their customers and then target them with location-specific ads.

McDonald's is the world's biggest restaurant chain, with over 37,000 restaurants in more than 120 markets. The fast-food chain divides its target markets into segments by country, region, and cities then customize its menu based on local preferences.

McDonald's modifies its product offerings in line with the geographic and cultural region. This, in a way, not only shows respect towards local traditions and beliefs but also promotes their company's image.

For instance, in India instead of attempting to sell a Big Mac (which is a beef burger) and hitting the local sentiment, they introduced the Maharaja Mac which is a variation of the Big Mac but without pork or beef.

Similarly, In Japan, they factor in seasonal tastes, for example, the TeriTama Burger in springtime and Tsukimi Burger in autumn. Whereas in the Philippines, they offer McDo chicken with Spaghetti..

3. Behavioural segmentation

A company's segregation of the market based on consumer's behaviour is called behavioural market segmentation. Dividing the target audience based on their behaviours enables the firm to create specific messaging that will accommodate those behaviours.

The segmentation is based on factors such as:

1. Loyalty Status

This involves four groups based on loyalty status; Hard-core Loyals, Split Loyals, Shifting Loyals and Switchers.

2. Usage

Buyers can be segmented into light, medium or heavy product users.

3. Occasion

Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer's life. Buyers can be classified based on the occasions when they develop a need, purchase a product, or use one.

Example – Sephora

Sephora's Beauty Insider is undoubtedly one of the best loyalty programs ever executed. In order to stay in line with their image as a niche brand, they rarely offer discounts and price cuts.

Alternatively, they run on a point-based system that categorizes customers into tiers depending on their annual spending. Higher tiers offer greater rewards and more point accrual for every dollar spent. The brand stays relevant by offering beauty enthusiasts augmented reality feature that allows users to try on various products virtually.

Depending on the tier that a customer falls into, Beauty Insiders get access to a wider range of gifts and early access to new products, exclusive events, and one-of-a-kind experiences. Tiered loyalty programs are one of the most productive ways to encourage desired behaviours from buyers, especially when the upper tiers convey a sense of exclusivity.

4. Psychographic segmentation

Psychographics is the science of using psychology and demographics to understand consumers better. People that fall under the same demographic group can exhibit quite different psychographic profiles.

This sort of segmentation is similar to demographic segmentation, but it deals with features that are related to mental and emotional attributes. In Psychographic segmentation, customers are classified into groups based on;

1. Personality

Products or services can be introduced to provide to various personalities, and new features also can be developed for the analyzed figures. Few distinguished personalities are: creative, emotional, friendly, opinionated, introvert, extrovert etc. help organizations to segregate their customers systematically.

2. Attitude

An individual's attitude is moulded by the way he/she is raised and the cultural background they belong from. Each potential customer will have a diverse attitude which can be a variable for psychographic segmentation.

3. Lifestyle

Lifestyle is the most accurate insight into what customers truly value and how they spend their time and money.

4. Activities, Interests and Opinions

Activities include: The movements a person enjoys and is willing to spend money on them are activities. The level at which they enjoy and engage in those activities. The way they make purchases on those activities.

5. Interests

Interest level points to the excitement customers get from engaging with or thinking about engaging with some product or service. Every individual's interests and hobbies differ, and knowing this can reinforce one's marketing efforts.

6. Opinions

People's views or attitudes form the baseline in which they determine the product or service useful and essential.

People often tend to have strong opinions on religious, gender, political, environmental, and cultural topics which have a significant impact on the products and services they buy and even how they react to the marketer's advertising message.

Example Red Bull

Benefits of Market Segmentation

1. Greater company focus

When a firm has distinguished specific market segments, it supports them to focus on the segments they want to target.

2. Better serve a consumer's needs and wants

Having established segments allows firms to satisfy a variety of consumer needs by offering different bundles and incentives.

3. Market competitiveness

When a firm focuses on a particular segment, its market competitiveness hikes. Which, as a result, leads to a higher ROI.

4. Market expansion

Geographic segmentation facilitates market expansion quite immediately. When a firm understands its segments and how to advertise to a segment in a particular location, it can grow into another nearby area immediately.

5. Targeted communication

Despite the product features and benefits being the same, companies need to target segments with specific communication. Messaging will be different for different segments and platforms used to target different segments will be different too.